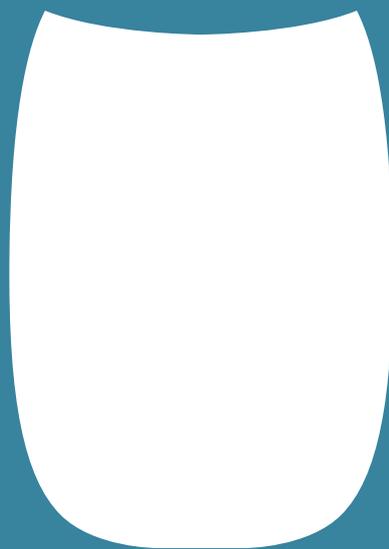


Window of Opportunity...

Annual Report 2021



Airport & Aviation Services
(Sri Lanka) (Private) Limited



Contents

3	Vision & Mission
6	Financial Highlights
7	Performance Highlights
8	Organizational Structure
9	Year at a Glance
10	Chairman's Message
14	Leadership Team
19	Senior Management Team
24	Report of the Board of Directors on the Affairs of the Company
30	Report of the Audit and Management Committee (AMC)
34	Management Discussion and Analysis
46	Sustainability Management
50	Financial Review
56	Management of Human Capital
64	Risk Management
71	Corporate Governance

FINANCIAL REPORTS

81	Report of the Auditor General on the Financial Statements
86	Statement of Comprehensive Income
87	Statement of Financial Position
88	Statement of Changes in Equity
89	Statement of Cash Flows
90	Notes to the Financial Statements
118	Connectivity and Dimensions Corporate Information (Inner Back Cover)



...to Global Potential

As the pandemic raged on, taking its toll on a worldwide scale, the aviation industry faced a steep obstacle in finding ways to keep passengers connected to the world in safe and effective ways within the year under review. Our role in facilitating more arrivals while securing the borders, resulted in the adoption of safety measures and guidelines, which not only protected those who wished to experience the best of the country but also those who played a vital role in ensuring the smooth functioning of the airport. While the gradual reopening of the travel industry poses its own unique challenges, we believe that our ability to adapt and adopt innovation, and our continuing progress in creating new experiences to enhance visitor engagement will help us remain competitive as an acclaimed travel hub, opening up the window of opportunity in achieving our global potential.



An aerial photograph taken from the cockpit of an aircraft, looking out over a tropical island. The island features a sandy beach, lush green vegetation, several buildings, and a prominent radio tower. The ocean is a vibrant blue, and the sky is clear with some light clouds. The view is framed by the aircraft's window and part of the cockpit structure.

VISION

“Friendliest aviation partner in global connectivity towards a sustainable economy.”

MISSION

“To provide competitive, safe aviation services and superlative guest experience with best practices and latest technology to ensure stakeholder satisfaction.”

OPENING UP A WORLD OF POSSIBILITY FOR TRAVELLERS





Financial Highlights

	2021 LKR. Mn	2020 LKR. Mn	2021/2020 +/- %	2019 LKR. Mn	2020/2019 +/- %
Profit & Loss					
Turnover	7,879	8,011	-2%	25,693	-69%
Operating expenses before depreciation	9,006	9,768	-8%	10,649	-8%
EBITDA					
	(1,176)	(1,805)	35%	15,012	-100%
Depreciation of fixed assets	2,648	2,854	-7%	2,841	0%
Net Finance costs / (Income)	(2,815)	(878)	+100%	(3,018)	-71%
Profit Before Taxation	(961)	(3,733)	74%	15,222	-100%
Income Tax	1,123	(1,228)	-100%	4,226	-100%
Profit After Taxation	(2,084)	(2,504)	17%	10,996	-100%
Profit/(Loss) attributable to equity shareholders	(2,084)	(2,504)	17%	10,996	-100%
Cash Flows					
Dividends	-	-	-	500	-100%
Cash and Cash Equivalents as at December 31st	413	826	-50%	2,480	-67%
Total Capital Expenditure for the year	22,960	2,169	+100%	4,068	-47%
Financial Position					
Shareholders Fund as at December 31st	41,314	36,983	12%	39,231	-6%
Total Carrying Amount of Non-Current Assets as at December 31 st	79,414	55,571	43%	55,300	0.5%
Total Current Asset as at December 31 st	47,430	47,645	0%	52,975	-10%
Total Current Liabilities as at December 31st	7,927	6,202	28%	7,323	-15%

Prior year figures have been re-arranged whenever necessary to conform to the current year's presentation.

-100% or +100% indicates the variances more than 100%

All figures are subject to rounding differences

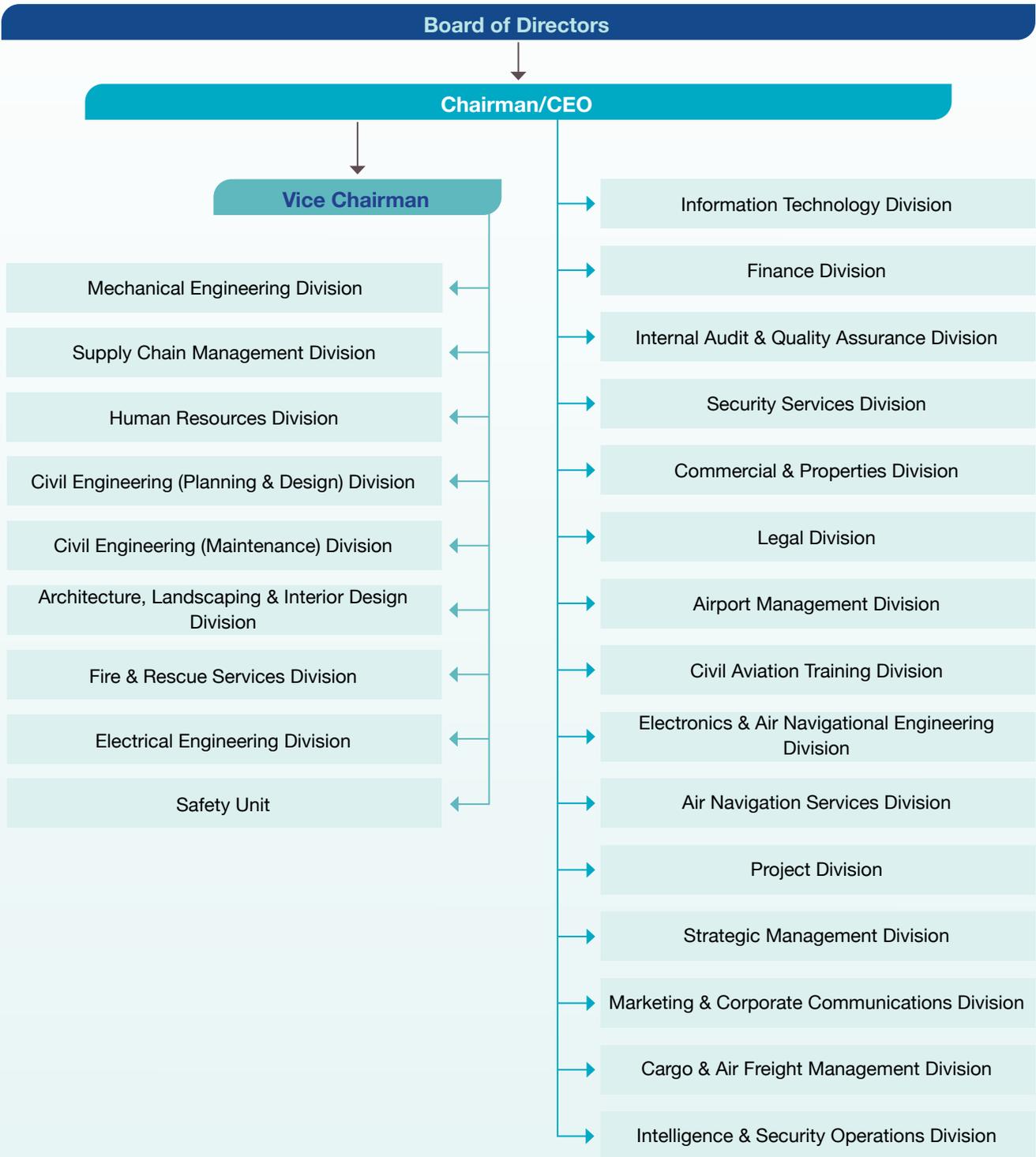
Performance Highlights

		2021	2020	2019	2018	2017
Operating Highlights						
International Flight Movements	Nos.	21,204	20,881	62,195	67,351	62,850
Passenger Movements*	Nos.	1,505,479	2,375,056	9,958,688	10,884,028	9,957,502
Cargo Movements**	M.T.	241,506	150,075	259,089	279,559	274,044
Overflying Movements	Nos.	9,339	16,370	45,674	43,804	39,413
Total number of Employees as at December 31st	Nos.	3,985	4,098	4,182	3,836	3,908
Highlights in Ratios						
Return on Equity	%	(5)	(7)	28	19	37
Profit before tax to total net revenue	%	(12)	(47)	59	36	52
Profit before tax to shareholders fund	%	(2)	(10)	39	37	47
Total Revenue to total Assets	Times	0.06	0.08	0.24	0.29	0.24
Total assets per Employee	LKR'000	31,830	25,187	25,891	26,286	22,267
Total staff cost per employee						
- Per Annum	LKR'000	1,881	1,811	1,944	1,947	1,644
Total cost per Flight Movement	LKR'000	574	738	235	318	202
Revenue per Passenger Movement	LKR	5,234	3,373	2,580	2,640	2,085
Profit after tax per Passenger Movement	LKR	(1,384)	(1,054)	1,104	488	875
Aircraft Movements per Employee	Nos.	5	5	15	18	16
Passengers per Aircraft	Nos.	71	114	160	162	158
Passengers per Employee	Nos.	378	580	2,381	2,837	2,548
Return on Equity	%	(5)	(7)	28	19	37
Profit before tax to total net revenue	%	(12)	(47)	59	36	52
Profit before tax to shareholders fund	%	(2)	(10)	39	37	47
Total Revenue to total Assets	Times	0.06	0.08	0.24	0.29	0.24
Total assets per Employee	LKR'000	31,830	25,187	25,891	26,286	22,267
Total staff cost per employee						
- Per Annum	LKR'000	1,881	1,811	1,944	1,947	1,644
Total cost per Flight Movement	LKR'000	574	738	235	318	202
Revenue per Passenger Movement	LKR	5,234	3,373	2,580	2,640	2,085
Profit after tax per Passenger Movement	LKR	(1,384)	(1,054)	1,104	488	875
Aircraft Movements per Employee	Nos.	5	5	15	18	16
Passengers per Aircraft	Nos.	71	114	160	162	158
Passengers per Employee	Nos.	378	580	2,381	2,837	2,548
Gearing Ratio	%	39	19	13	20	35
Return on Total Assets	%	(2)	(2)	10	5	10
Net profit Ratio	%	(26)	(31)	43	18	42
Capital Productivity Index	Times	0.00	0.10	0.25	0.29	0.24
Earning Per Share	LKR	(10,417)	(12,522)	54,979	26,566	43,574
Current Ratio	Times	5.98	7.68	7.23	3.49	2.78
Total Income to Total Expenditure	Times	0.92	0.76	2.04	1.49	1.85

* Passenger movements include Arrival, Departure, Transfer and Transit excluding domestic passengers.

** Cargo movements include Export, Import and Transshipment excluding Domestic Cargo & Air mails.

Organizational Structure



Year at a Glance



LKR 7,386 Mn
Turnover



LKR 2,083 Mn
Net loss after tax



3,985
No. of employees



974 Employees
No. of Training Opportunities

Chairman's Message



I am delighted to share the annual report of Airport and Aviation Services (Sri Lanka) (Private) Limited (AASL) for 2021, a year marked by challenges as well as a number of developments, bringing to mind the phrase “Survival of the Fittest”. The slow recovery from COVID-19 and the emergence of a number of COVID-19 variants around the world resulted in the snail pace recovery of the aviation industry and as a result in 2021 AASL recorded its lowest revenue in recent years.

AASL revenue for 2021 fell by 2% to LKR 7.38 Bn compared to LKR 7.51 Bn last year. This is a 71% decrease compared to the pre-COVID-19 revenue of LKR 25.65Bn in 2019. AASL’s overflying income also remained low and reported a decline of 27% YOY due to the continued travel restrictions imposed by many countries. A significant decline of 37% in passenger movements caused revenue from embarkation levy to reduce by 35% from LKR 1.5Bn to LKR 0.9Bn.

In 2021, AASL achieved a milestone by improving air traffic statistics of MRJA (Mattala Rajapaksa International Airport) substantially with a recorded highest number of aircraft movements and passenger movements since its inception.

I am pleased to share that AASL took steps to recover a long outstanding debt from the national carrier as per an agreed settlement plan through effective negotiations.

Challenges Faced During the Year

The aviation sector continued to face a number of challenges in addition to the direct impact of COVID-19. These included the declining market conditions, the disruption of economic activities as a result of the pandemic’s effect on almost all sectors of the economy, airlines adapting cost effective operations, closure of adjacent flight information region (FIR) which affected the overflying movements, and declined passenger movements affecting commercial contracts operated at airports.

Managing COVID-19 and Related Challenges

AASL took a number of steps to reassure passengers about precautions taken to reduce health risks due to COVID-19. This included accreditations and recommendations by the Airports Council International (ACI), International Civil Aviation Organization (ICAO) and Council Aviation Recovery Task Force (CART). The accreditations were received by Bandaranaike International Airport (BIA) on 11th January and by MRJA on 30th June 2021.

Keeping passenger and employees safe was of utmost importance during the pandemic. AASL imposed restrictions on inbound passengers from high risk countries that recorded sudden spikes of COVID-19 infections. Voluntary vaccination drives were introduced to employees of AASL and other related institutions as a precautionary and safety measure. Under this, over 4,100 employees were administered with the second dose of the COVID-19 vaccine, while eligible employees were given the booster jab in November 2021.

Employees were encouraged to adhere to COVID-19 safety guidelines including maintaining of social distancing protocols. The Company also adopted work from home as and when required to avoid the spread of the virus among staff members.

Steering the Business

The proactive steps taken by AASL greatly contributed to keep the business afloat throughout the year. Sri Lanka’s successful vaccination drive against COVID-19 and Sri Lanka’s reputation worldwide as a renowned travel destination helped the speedy arrival of tourists immediately after travel restrictions were eased.

Promoting Sri Lanka as a niche health tourism destination by drawing attention to Sri Lanka’s legacy of “Hela-Vedakama” (Ayurvedic medicine) has been a driving factor in promoting Sri Lanka over other tourist destinations.

The need of world-wide travelers to engage in cross border travel for many reasons such as leisure, business, MICE (meetings, incentives, conferences and exhibitions), to visit friends and relatives (VFR), medical and pilgrim purposes has kept the potential of the industry unblemished and able to contribute towards industry growth.

AASL’s main strategy during 2021 was the recovery from the disrupted demand. AASL negotiated with airlines for the resumption of flight operations and revisited all commercial contracts with lease partners (concessionaires) who occupied a rented space in our passenger and cargo terminals to ensure that pricing terms were consistent with passenger movement.

AASL efforts were rewarded by the latter quarter of 2021 with 4 airlines resuming operations to BIA. We also secured 97% of commercial contracts which were initially presented pre-COVID, while 22 number of new contracts were also signed during the year.

Chairman's Message

Recovery of Sri Lanka's tourism sector supported with identified market segments for each airport and its niche offer is our future aspiration. The strategy involves market stabilization for BIA, market growth for MRIA, new market entry for CIAR and JIA, driving a boom in domestic aviation within the country's air strips. The materialization of this strategy needs to be optimized within the available window of opportunity, which will in turn have a positive effect on other opportunities.

Substantial concessions were given to concessionaires from 2020 and the gradual increases in flight and passenger movement in 2021 protected existing concessionaires as well as to achieve a win-win situation by sharing the financial pressure amongst partners.

Opportunities and Initiatives

A number of opportunities to promote tourism in Sri Lanka arose during the year, encouraging efforts to develop and restore the domestic tourism industry. Sri Lanka being named a favored tourist destination and being located in the highest aviation movement region presented opportunity for AASL to promote its services. Branding Sri Lanka as a destination for wellness tourism, a fast growing global niche, provided opportunity to promote Sri Lanka as a sought after niche tourist destination.

Prospects in the domestic aviation sector included growing demand for sightseeing and long distance flights during the second half of 2021. This benefitted AASL by renting out the hangar space and by generating revenue from landing and parking flight movements. Additionally, increasing regional demand for aviation training and the recommencement of scheduled airlines during the fourth quarter of 2021 was an encouraging turn of events for AASL.

During the year, initiatives were taken to promote MRIA as an exotic tourist destination, resulting in 12 airlines commencing flights to/from MRIA in 2021. A joint promotion was carried out by AASL in partnership with domestic airlines in a bid to encourage domestic aviation. The Civil Aviation Training Centre was rebranded as the Sri Lanka Airport and Aviation Academy to promote Sri Lanka as an aviation training center, a step towards establishing the training arm of AASL as an accredited aviation training institute by ICAO.

Future Strategy

Recovery of Sri Lanka's tourism sector supported with identified market segments for each airport and its niche offer is our future aspiration. The strategy involves market stabilization for BIA, market growth for MRIA, new market entry for Colombo International Airport (CIAR) and Jaffna International Airport (JIA) driving a boom in domestic aviation within the country's air strips. The materialization of this strategy needs to be optimized within the available window of opportunity, which will in turn have a positive effect on other opportunities.

The positive outlook for tourism and the aviation sector in Sri Lanka relies on the country maintaining a conducive environment for tourism, and the steady decline of the threat of COVID-19.

Appreciations

Firstly, I would like to thank the entire workforce and all stakeholders for the commendable, dedicated and loyal support extended to AASL in continuing this essential service of aviation despite the threat of COVID-19.

I wish to extend my gratitude to the Board of Directors for actively driving an effective strategy to overcome the challenges, and the senior management for their commitment towards realizing our corporate strategy.

My sincere thanks to the Cabinet Minister, the State Minister in charge of AASL, line ministry, Civil Aviation Authority, Tourism Development Authority and Tourism Promotion Bureau for their guidance and cooperation in relevant administrative and policy functions.

A special thank you to the airlines who have continued to fly into Sri Lanka and all agencies housed at our airports for their trust and confidence in us.



Maj. Gen. (Rtd) G A Chandrasiri RWP USP VSV ndc psc
Chairman

10th June 2022

Leadership Team



Seated Left to Right

Ms. D A De Livera - Non-Executive Director | **Maj. Gen. (Rtd.) G A Chandrasiri** RWP USP VSV ndc psc - *Chairman*
Mr. R Sooriyaarachchi - *Vice Chairman*

Standing Left to Right

Eng. U S Manchanayake - Non-Executive Director | **Mr. R A P Wijerathnasekera** - Non-Executive Director
Mr. G A A Priyantha - Non-Executive Director / Treasury Representative



Mr. D A P Weeratna, PC - Non-Executive Director | **Mr. A S Warushahennadige - Non-Executive Director**
Ms. V L Udugampola, AAL - Company Secretary

Mr. S Sumanasekara - Non-Executive Director | **Mr. W M G Rashantha - Non-Executive Director**
Mr. A H S Gunawardena - Ministry Observer

Not in the picture

Mr. C Vitharena - Non-Executive Director

Leadership Team

Major General G A Chandrasiri RWP USP VSV ndc psc Chairman

Major General G A Chandrasiri was appointed as the Chairman of AASL in December 2019 and since then serves as the Chairman as well as the Chief Executive Officer at AASL. He chaired board sub-committees on Strategic Planning and Management, Financial Management, and Revenue Generation at AASL during 2021.

He also serves in the Board of Bank of Ceylon PLC as an independent non-executive director. He holds an illustrious military career of 35 years, in a number of key command and staff appointments in the Sri Lanka Army including Chief of Staff of the Sri Lanka Army, Principal Staff Officer at the Joint Operations Command Headquarters and Regimental Commander of the Sri Lanka Army Special Forces, Commander of the Security Forces Headquarters, Jaffna, Military Security Co-ordinator to HE the President, and Competent Authority for the resettlement of internally displaced people in the Northern Province in the aftermath of war. He is recipient of the prestigious awards of recognition such as Rana Wickrama Padakkama (RWP), Vishishta Sewa Vibushanaya (VSV) and Uththama Sewa Padakkama (USP). He also served as the Governor of the Northern Province from 2009 to 2015.

He graduated from the National Defense College, India and Defense Services Command and Staff College, Bangladesh. He also served as a member of the National Task Force for Prevention of COVID-19 outbreak as well as a member of the Post-COVID Tourism Revival Task Force during recent times.

Mr. R Sooriyaarachchi

Vice Chairman

Mr. Rajeevasiri Sooriyaarachchi was appointed as Vice-Chairman of AASL in December, 2019 and serves as the only full-time Executive Director of AASL next to the Chairman. He brings over 30 years of experience and extensive knowledge in the fields of insurance, consumer electronics and international business administration. Since his appointment, he played a pivotal role in overseeing administrative and operational functions of all airports under AASL. He was also the Chairman of the AASL HR and Remuneration Board sub-committee member. He works closely with key local and international industry stakeholders, whilst acting as media spokesman of AASL.

Prior to being appointed as the Vice-Chairman of AASL, Mr. Rajeevasiri functioned as the Chairman of Puttalam Salt Limited during 2010-2015. He has also served as the Chairman of the Cooperative Rural Bank Union Ltd – Gampaha, during 2011-2015. Presently, he also serves as the Vice Chairman of Cooplife Insurance Company Ltd since 2022 and holds directorship positions at Cooperative Insurance Company Ltd since 2016 and Road Development Authority from 2007 – 2010.

Mr. S Sumanasekara

Non-Executive Director

Mr. Shehan Sumanasekara, is a member of the board of AASL since December 2019. Being a commercially rated pilot, he brings in a wealth of experience and technical knowledge required to identify opportunities and current demands in the aviation industry. His diversified experience covers industries such as aviation, oil and gas, shipping and logistics, coal, chemicals and bituminous product manufacturing.

He is also the Managing Director/CEO of McIlloyds Holdings and holds Directorships in three other diversified organizations. Mr. Sumanasekara holds a Masters Degree in Business Administration from the University of Wales (UK) and holds a commercial pilot license from Federal Aviation Authority (FAA) USA.

Over the years, he has contributed to the group of companies which he manages and represents, with unprecedented growth in business and expansion of services and supply chain management.

Mr. Sumanasekara also chairs the “Jana Sahana Padanama”, an NGO assisting communities to uplift quality of life, and seeks to transform the lives of many children in Sri Lanka by various initiatives to achieve equality in education.

He was appointed by the Board as the Director in charge of MRIA and also as the director in-charge of Operations in all airports during the tenure at AASL. He also chaired the Commercial and Properties Board Sub-Committee during 2021 prior to its reconstitution as the Revenue Generation Board Sub-committee.

Mr. A S Warushahennadige

Non-Executive Director

Mr. Aruna Warushahennadige, is a member of the board of AASL since December 2019. He is an experienced Chairman/Executive Director with extensive experience in the capital markets industry, airport operations,

international airlines management, market planning, branding, and aviation strategy development.

Mr. Warushahennadige holds a Master of Science (MSc) degree in International Marketing from London South Bank University. He was appointed by the board of AASL to oversee all Aviation Projects during the tenure at AASL.

Ms. D A De Livera

Non-Executive Director

Ms. Deirdre De Livera is a member of the board of AASL since December 2019. She brings decades of experience as a seasoned professional in the field of travel and aviation management. Ms. Livera was appointed by the board of AASL as the director in charge of CIAR and domestic airports. She acted as the Chairperson for the Risk Management Board Sub-committee as well as the Commercial Plan for T2 Board Sub-committee during the tenure at AASL.

Commencing her career in 1986, Ms. Livera played an integral part in setting up operations of Japan Airlines in Sri Lanka, and since then has come a long way in the field of aviation and management. She has held key positions at Japan Airlines, Thai International, Jetwing Travels and Jetwing Air Services covering operational and marketing functions.

During her stint at Jetwing Air Services, she was the Country Manager of multiple airlines such as Sahara India Airlines, Malev Hungarian Airlines, Tap Air Portugal, Iberia, and Lauda Air, giving her a vast amount of experience and knowledge in the aviation industry around the globe.

Eng. U S Manchanayake

Non-Executive Director

Eng. Manchanayake is a member of the board of AASL since December 2019. He counts over 26 years of experience in the telecommunication industry as a technical and engineering professional with extensive experience in project management. He acted as the Chairman of the Digital Infrastructure and IT board sub Committee of AASL during 2021, as appointed by the board.

Currently, he serves as the CEO Designate for Sri Lanka Telecom - Digital Info Services (Pvt) Limited. He served as Deputy General Manager of Sri Lanka Telecom PLC for more than eight years, holding responsibilities in the fields of telecommunications network expansion and penetrate voice, broadband, and data services island-wide. Eng. Manchanayake is also an active member of

Government's Provincial Administration Procedures and Citizen Participation Development Committee and Justice of Peace for All Island.

Eng. Manchanayake holds a Master of Business Administration from Preston University of USA. He is also a member of the Institution of Engineers, Sri Lanka specialized in electrical power engineering and also holds a Diploma in Electrical Power Engineering Technology from the University of Moratuwa, Sri Lanka.

Mr. W M G Rashantha

Non-Executive Director

Mr. Gihan Rashantha is a Member of the board of AASL since February 2021.

Mr. Rashantha is the Founder and Managing Director of a multi-faceted export organization and possesses a wealth of experience in the field of international gem trade. At present, he is also the Coordinating Secretary to the Hon. State Minister of Aviation and Export Zones Development.

Mr. Rashantha is a graduate of the Minnesota State University in the United States of America.

Mr. R A P Wijerathnasekera

Non-Executive Director

Mr. R A P Wijerathnasekera is a member of the board of AASL since December 2019. He has more than 25 years of experience working in the public sector as area manager, coordinating secretary and private secretary to ministers of local governments and cabinet ministers.

Presently, he also serves as the Private Secretary to the Hon. Minister of Export Development and Investment Promotion, Tourism and Aviation since the year 2020.

Mr. Wijerathnasekera, holds a Bachelor of Science (Business Studies) from the University of Sabaragamuwa and a Master of Science (Service Management) from the University of Colombo.

Mr. D A P Weeratna, PC

Non-Executive Director

Mr. D A P Weeratna, PC, is a member of the board of AASL. Mr. Weeratna possesses a broader experience serving in the boards of a few state-owned entities such as Lanka Phosphates Ltd., Foreign Employment Agency and National Housing Development Authority. He also served as a committee member of Criminal Law Reforms Committee under the Ministry of Justice.

Leadership Team

He has been an Unofficial Magistrate for the last 20 years and a Justice of Peace for the whole island since 1985. Presently, he holds the position of member of the Bar Council for the Bar Association of Sri Lanka for the last 10 years. As a law expert, he has authored more than a dozen books in relation to law.

Mr. G A A Priyantha

Non-Executive Director / Treasury Representative

Mr. G A A Priyantha was appointed as a member of the Board of AASL since June 2021. He also serves as the Chairman of Audit & Management Committee of the company. He has over 18 years of experience in the Ministry of Finance having served in many positions including Assistant Director of both the Department of Management Services and Department of Public Enterprises.

Mr. Priyantha has also served as the Director of the Department of Public Finance and Department of Fiscal Policy. Currently he serves as Additional Director General (Acting) of the Ministry of Finance. He has also served as Board Director of many public enterprises and government companies since 2005.

Mr. Priyantha holds a Master's Degree in Development Studies from the University of Colombo and a Bachelor of Science (B.Sc.) Degree in Management from the University of Sri Jayewardenepura.

Mr. A H S Gunawardena

Ministry Observer

Mr. A H S Gunawardena is a Ministry Observer of the board of AASL since December 2019. Having started his career as an SLAS officer, Mr. Gunawardena counts more than 24 years of experience in the public sector.

He was first appointed as an Assistant Director (SLAS II/II) at the Ministry of Plan Implementation and Parliamentary Affairs in 1998 and progressed through holding senior

positions at different ministries and government entities where he gained a vast array of experience. During his appointment as a Director (SLAS I) at the Department of National Budget, Ministry of Finance & Planning, he represented the Treasury on the boards of many state-owned entities such as State Pharmaceutical Manufacturing Corporation, National Engineering Research and Development, Land Reclamations Commission, Coconut Cultivation Board, and State Engineering Corporation.

Presently, he functions as Additional Secretary (Admin and Aviation) of the State Ministry of Aviation and Export Zones Development. Mr. Gunawardena also has served as the Acting Chairman of AASL and CAASL for a short period during 2019 and 2020 respectively.

Mr. Gunawardena holds a B.A in Economics and a Post Graduate Diploma in Economic Development from the University of Colombo. He also completed his MA in Economics from the same university and is presently reading for his MBA.

Mr. C Vitharena

Non-Executive Director

Mr. Chandika Vitharena serves as a member of the AASL board since December 2019. He counts over 30 years of experience and brings in expertise in product strategy, sales and channel development, finance, and human resource.

Presently Mr. Vitharena also functions as the Chief Executive Officer of Mobitel (Pvt) Ltd. and has helmed the company to become one of the most profitable and successful mobile service operators in the country. He has progressed through the roles as Sales Manager and Senior General Manager in the telecommunication industry before his appointment as the CEO.

He holds a B.A. (Honours) Degree in Political Science from the University of Delhi, India.

Senior Management Team

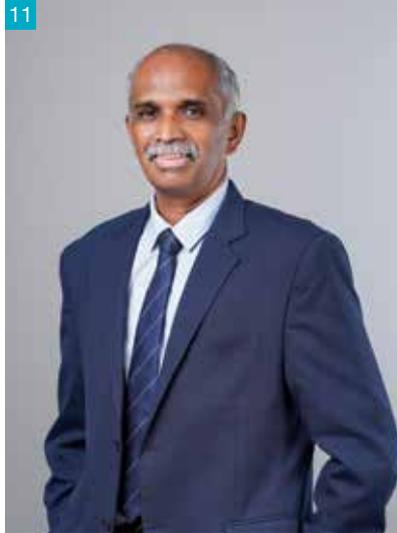


Senior Management Team

10



11



12



13



14



15



16



17



18



19



20



21



22



1. **G Withanage**-Head of Civil Engineering (Planning & Design) | 2. **H S Hettiarachchi**-Head of Airport Management
 3. **J A M D S S Abeywardena**-Head of Finance | 4. **A I B Karunaratne**-Head of Projects | 5. **M Ratnasinghe (Mrs)** -Head of Legal
 6. **H P L Sirimanne**-Head of Supply Chain Management | 7. **K D Y Chandanie (Mrs)** -Head of Strategic Management
 8. **U M Weerawardena**-Head of Electrical Engineering | 9. **J M De Croos Rubin**-Head of Architecture, Landscaping & Interior Design
 10. **U J Lokuarachchi**-Head of Information Technology | 11. **U S Jagoda**-Head of Civil Engineering (Maintenance)
 12. **Wing Cdr. (Rtd.) S M D Wijesooriya**-Head of Fire & Rescue Services
 13. **S S De Silva**-Head of Marketing & Corporate Communication | 14. **M K P Tennage (Mrs)**-Head of Internal Audit & Quality Assurance
 15. **J K Rathninda**-Head of Electronics & Air Navigational Engineering | 16. **N C Abeywardena**-Head of Air Navigation Services
 17. **R W L B Medawewa**-Head of Cargo And Air Freight Management | 18. **D J U Purasinghe**-Head of Commercial & Properties
 19. **Major Gen.(Rtd.) A P Pallawela RWP RSP**-Head of Security Services
 20. **Lt. Col. (Rtd.) K H C Kumarasinghe**-Head of Intelligence & Security Ops. – All Airports
 21. **S P Palagama-Actg.**-Head of Mechanical Engineering | 22. **S D A S Nishantha**-Company Medical Officer

Not in the picture

H A A K M Seneviratne-Head of Civil Aviation Training | **M C G Mahipala (Mrs)** -Head of Human Resources



MAKING TRAVEL EASIER AND SAFER WITH INNOVATION



Report of the Board of Directors on the Affairs of the Company

We are pleased to present our Report together with the audited financial statements for the year ended 31 December 2021. The details set out herein, provide the pertinent information required by the Companies Act No.7 of 2007 and are guided by best Accounting Practices. Through the concise presentation of this Report, we have ensured the material disclosures are well addressed to the shareholders to have an appreciation of the state of the company's affairs and any changes during the accounting period.

1. About the Company

Airport and Aviation Services (Sri Lanka) (Private) Limited (AASL) is a company fully owned by the Government of Sri Lanka, with statutory powers to manage and develop civil airports in Sri Lanka.

2. Principal Activities

The principal operational activities of AASL continued to accomplish its role as the sole statutory service provider of the following aeronautical services under the powers vested through Civil Aviation Act No. 14 of 2010, Gazette on 04 November 2010:

- 2.1 The development, operation, and maintenance of the Bandaranaike International Airport (BIA), Mattala Rajapakse International Airport (MRIA), Colombo International Airport Ratmalana (CIAR), Batticaloa International Airport (BTIA), and Jaffna International Airport (JIA).
- 2.2 The provision and maintenance of search, rescue and firefighting services and aviation security services at the above aerodromes.
- 2.3 The provision of air traffic services, aeronautical information services, aeronautical communication services, and provision of aeronautical aids for communication, navigation, surveillance, ensuring the safety and security of all aircraft and passengers within the Colombo FIR.

3. Review of Operations

A review of financial and operational performance, during the year ended 31 December 2021 and future business development of the AASL is illustrated in the Chairman's Message (Page 10 to 13), Management Discussion and Analysis (Page 34 to 45), and the Financial Overview (Page 50 to 55) of the Annual Report. These reports together with the audited financial statements of the company reflect the respective state of affairs which form an integral part of the Annual Report of the Board of Directors.

The Board of Directors continuously monitors operational performance through key performance indicators with the view of achieving the AASL's vision, "Friendliest aviation partner in global connectivity towards a sustainable economy".

4. Financial Statements

The Financial Statements of the Company, duly signed by two Directors on behalf of the Board are given on pages 81 to 117.

5. Accounting Policies and Changes During the Year

The company prepared the financial statements in compliance with Sri Lanka Accounting Standards (SLFRSs/LKASs). Significant accounting policies adopted in preparation of financial statements of the company are given on pages 90 to 101. The Board of Directors wishes to confirm that there were no changes to the accounting policies adopted by the company during the period under review.

6. Directors' Responsibility for Financial Statements

The Companies Act No. 7 of 2007 requires the Directors to prepare and present Financial Statements for each financial year to reflect true and fair view of its state of affairs. The Directors are of the view that these Financial Statements appearing on pages 81 to 117 have been prepared in compliance with the requirements of Sri Lanka Accounting Standards, Companies Act, Accounting and Auditing Standards Act No. 15 of 1995 and other financial reporting regulatory requirements.

7. Independent Auditors, Auditor's Report and Remuneration

As per the 19th amendment enacted on 15 May 2015 to the article 154 of the Constitution, Auditor General is empowered to carry out audits of all Government enterprises registered under any written law and the Companies Act No.7 of 2007. In compliance with this direction, audit of AASL for the year 2021 was carried out by the Auditor General.

The Independent Auditors' Report on the financial statements of the company is given on pages 81 to 85 of this report. The audit fee for the year ended 31 December 2021 was LKR 1,200,000 (2020: LKR 1,793,000) and there were no other fees paid to the auditors for audit related services and non-audit services. As far as the Directors are aware the auditors do not have any relationship other than that of an auditor with the company.

8. Internal Controls and Key Internal Control Processes

The Board of Directors of the Company has taken reasonable steps to safeguard its assets to prevent and detect frauds and any other irregularities. For this purpose, the Directors have instituted effective and comprehensive systems of internal controls for identifying, recording, evaluating, and managing significant risks faced by the company throughout the year and it is being regularly reviewed by the Board of Directors.

This comprises of internal reviews, internal audit and the whole system of financial and other controls required to carry on the operations in an orderly manner, safeguard the assets, prevent and detect frauds and other irregularities, and secure, as far as practicable, the accuracy and reliability of the records. The Audit and Management Committee (AMC) regularly review internal control issues identified by the company's Internal Auditors, the Government Auditors, and regulatory authorities. The Management evaluates the adequacy of the internal control system.

9. Income Statement and the Financial Position of the Company

9.1 Revenue

Revenue generated by the company for the year 2021 is LKR 7.9 billion (2020: LKR 8.01 billion) which is a slight reduction, equivalent to 1.6% with compared to the previous year. An analysis of company revenue based on business segments is disclosed in note 5 to the financial statements on page 102.

9.2 Operating Results

The company reported an operating loss amounting to LKR 3.8 billion for the year ended 2021. This is a 18% improvement when compared to the operating loss of LKR 4.6 billion recorded a year ago.

The company recorded a net loss of LKR 2.1 billion for the year 2021 compared to the net loss of LKR 2.5 billion in 2020. This loss reduction is attributable to net exchange gain and reduction in operational expenses.

9.3 Reserves

The reserves of the company comprises of share capital, other reserves, and retained earnings. Despite net losses for the year, Company's reserves reported an increment

due to fixed assets revaluation reserve. Accordingly, total equity recorded was LKR 41 billion as of 31 December 2021 as against LKR 37 billion recorded a year ago.

The movement in equity of the company is shown in the Statement of Changes in Equity on page 88.

9.4 Dividends

During the year under review, company did not declare dividends.

9.5 Donation

In the year 2021, the Company made donations worth of LKR 20,047,158 (in 2019: LKR 410,290)

9.6 Capital Expenditure

During the year under review, Company incurred LKR 23.0 billion as capital expenditure compared with LKR 2.1 billion in 2020. Investment on Property Plant and Equipment and Intangible assets are illustrated in notes number 11 and 12 of Notes to the Financial Statements.

9.7 Contribution to Government

AASL continued to provide infrastructure and other necessary facilities required for other Government authorities such as Sri Lanka Air Force, Sri Lanka Customs, Sri Lankan Airlines, etc. for them to provide related service within the airport. These transactions and account balances are disclosed under Related Party transactions in note 32 of Notes to the Financial Statements on page 116.

The contribution to the Government indirectly through the payment of taxes during the past 3 years is illustrated in the table below;

Year	LKR Million			
	Dividend	VAT	Income Tax	PAYE
2019	500	1,543	6,579	112
2020	-	207	1,618	7
2021	-	117	15	6

Report of the Board of Directors on the Affairs of the Company

9.8 Investments

Rupee value of investment portfolio depleted by LKR 2.3 billion at the end of the year, of which details are tabulated below.

	As at 31.12.2021 (LKR Million)	As at 31.12.2020 (LKR Million)
Treasury Bills/Bonds	20	420
Short term bank deposits	41,515	41,933
Investments in debentures	4,088	5,638
Long-term bank deposits	1,267	1,170
	46,890	49,161

9.9 Stated Capital

The share capital of the company appeared in the financial statements comprised of Ordinary Shares of LKR 100/- each. The shareholding as of 31 December 2021 was as follows:

Held by	No of shares	Value (LKR)
Secretary to the Treasury	200,000	20,000,000
Secretary - Ministry of Tourism & Aviation	1	100
Director General of Civil Aviation	1	100
	200,002	20,000,200

9.10 Events After Reporting Period

There have been no material events occurring after the Statement of Financial Position date that requires adjustments to or disclosure in the financial statements as mentioned in note 33 to the financial statements on page 117.

9.11 Going Concern

After making diligent inquiries, embracing the normal forecasting process, and considering future prospects and risk potential, the Directors consider that AASL has adequate resources and committed borrowing facilities to continue in operational existence for the foreseeable future. Consequently, all Financial Statements have been prepared based on Going Concern basis.

9.12 Contingencies and Commitments

The details of contingent liabilities are disclosed in note 29 to the financial statements on page 115.

10. Information of the Board of Directors and Board Sub-Committees

10.1 Directorate

The appointment of the Chairman (Article 79) and Non-Executive Directors (Article 82) have been done as per the terms of respective clauses of the Articles of Association of AASL.

10.2 Details of the Present Directors who held office at the end of the Financial Year 2021

Name	Position	Date of Appointment	Independent	Membership in Committees								
				AMC ¹	RMC ²	HR&RC ³	RGC ⁴	SP&M ⁵	FM ⁶	DI&IT ⁷	PM&M ⁸	T2 Com ⁹
Maj.Gen. (Rtd) G A Chandrasiri RWP USP VSV ndc psc	Chairman	12.12.2019	Yes	No	No	No	Yes*	Yes*	Yes*	No	No	Yes**
R Sooriyaarachchi	Vice-Chairman	06.12.2019	Yes	No	No	Yes*	Yes	Yes	No	No	No	No
A S C Warushahennadige	Non-Executive Director	12.12.2019	Yes	No	No	Yes	Yes	Yes	No	Yes	Yes	Yes
S N Sumanasekara	Non-Executive Director	12.12.2019	Yes	No	No	No	Yes	Yes	No	No	No	Yes
Eng. S M A U S Manchanayake	Non-Executive Director	12.12.2019	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes*	Yes*	Yes
C P Vitharena	Non-Executive Director	31.12.2019	Yes	No	No	No	Yes	No	No	No	No	No
D A De Livera	Non-Executive Director	31.12.2019	Yes	No	Yes*	No	Yes	Yes	Yes	Yes	No	Yes*
R A P Wijerathnasekara	Non-Executive Director	31.12.2019	Yes	No	Yes	Yes	No	No	No	No	Yes	No
W M Gihan Rashantha	Non-Executive Director	05.02.2021	Yes	No	No	No	No	No	No	No	No	No
G A Ajith Priyantha	Non-Executive Director / Treasury Representative	11.06.2021	No	Yes*	No	No	No	No	No	Yes	No	No
D A P Weeratne PC	Non-Executive Director	02.03.2020	Yes	Yes	No	Yes	No	No	No	No	No	No
A H S Gunawardhana	The Observer from State Ministry of Aviation & Export Zones Development	31.12.2019	Yes	No	No	Yes	No	No	No	No	No	No

1. Audit & Management Sub-Committee
2. Risk Management Sub-Committee
3. Human Resources & Revenue Generation Sub-Committee
4. Revenue Generation Sub-Committee
5. Strategic Planning & Management Sub-Committee
6. Financial Management Sub-Committee
7. Digital Infrastructure & IT Sub-Committee
8. Project Monitoring & Management Sub-Committee
9. Sub-Committee for Development of Commercial Plan of T2

* Chairman
**Overall in Charge

10.5 Disclosure of Directors dealing in Shares or Debentures

No shares or debentures are held by any of the Directors.

10.6 Directors' Interest in Contracts and Proposed Contracts

No Director was directly or indirectly interested in contracts or proposed contracts connected to the company's business during the year under review.

10.7 Directors' Remuneration and Other Benefits

The Company has paid LKR 11.3 million as Directors' emoluments for the year 2021. (2020 – LKR 6.6 million)
There were two Executive Directors at the end of the year who were paid LKR 2.2 million during the year as remuneration. This included all financial benefits namely Directors' allowances, EPF, ETF, bonus, reimbursement of entertainment expenses, telephone, and other allowances. Non-Executive Directors were paid an amount of LKR 9.1 million during the year, being the cost of traveling and Directors' fees for attending Board meetings.

11. Corporate Governance

The Board of Directors is committed to maintaining an effective Corporate Governance Framework and implementing systems and structures required to ensure best practices in Corporate Governance and their effective implementation.

12. Statutory Payments

The Directors confirm that to the best of their knowledge, all taxes, duties, and levies payable by the company, all contributions, levies, and taxes payable on behalf of and in respect of the employees of the company and all other known statutory dues as were due and payable by the company at the statement of financial position date have been paid or, where relevant provided for.

13. Compliance with Laws and Regulations

To the best of knowledge and belief of the Board of Directors, the Company has not engaged in any activity, which contravenes laws and regulations of the country.

14. Annual General Meeting

The Annual General Meeting will be held at the Board Room of AASL, on 30th June 2022 at 10:00 a.m.

15. Acknowledgement

The Board of Directors takes pride in congratulating the Management team for completing another financial year of the company amidst challenges. It was a challenging year for the aviation sector due to subsequent waves of the Covid pandemic and resulting travel restrictions across the globe. We place on record, our special gratitude to the Ministry of Tourism and other institutions, those continued to assist the company at this juncture being stakeholder and the regulator of the company.

Further, we would like to express our sincere appreciation and gratitude to all stakeholders involved and contributed towards continued operations of the company, including our customers for the continuous trust placed on us. Last but not least, our gratitude goes to all AASL staff for their continued commitment, integrity, and hard work extended during this unprecedented challenging year.

By Order of the Board



Maj. Gen. (Rtd.) G A Chandrasiri RWP USP VSV
ndc psc
Chairman

10th June 2022

Report of the Audit and Management Committee (AMC)

The primary role of the AMC is to assist the Board of Directors (Board) in fulfilling its oversight responsibilities. The AMC is appointed by and responsible to the Board.

The Composition of the Audit and Management Committee (AMC)

The Audit and Management Committee appointed by Board of Directors comprises three (03) Independent Non-Executive Directors who conduct committee proceedings in accordance with the Committee's Terms of Reference (TOR) approved by the Board of Directors. The Committee's composition during the year under review was as follows:

Committee Member	Member since	Position
1. Mr. G A A Priyantha-Treasury Representative	29.06.2021	Chairman
2. Eng. S M A U S Manchanayake	12.12.2019	Member
3. Mr. D A P Weeratne PC	23.10.2020	Member
4. Mr. R M A Rathnayake	16.01.2020 & resigned on 27.04.2021	Chairman

Meetings

The AMC met on Six (06) occasions during the year 2021. The attendance by the Committee members of AMC is given below.

Name of the Director	Number of Committee meetings attended
Mr. G A A Priyantha	05
Eng. S M A U S Manchanayake	06
Mr. D A P Weeratne PC	04
Mr. R M A Rathnayake	01

The proceedings of the AMC meetings were recorded by the Company Secretary, functioning as the Secretary to the AMC and minutes of AMC meetings were circulated to the Board of Directors at the next most practicable meeting.

Mandate and Role

The AMC recognized the mandate provided by the Section 41 of National Audit Act No. 19 of 2018 and the Guidelines on Corporate Governance for State owned Enterprises issued by Department of Public Enterprises in discharging its responsibilities.

Terms of Reference (TOR)

During the financial year, AMC assisted the Board in fulfilling its general oversight of financial reporting, system of internal controls and functions relating to internal and external audit. The AMC focuses on the following objectives in discharging its responsibilities as per TOR approved by the Board of Directors.

1. Determine the scope and the responsibilities of the Internal Audit Division.
2. Review and approve the Annual Audit Plan and the work programme. Annual Audit Plan to be prepared by the Internal Auditor in consultation with the Auditor General (External Auditor).
3. Review and evaluate the internal control systems for all the activities of the entity.
4. Liaise with External Auditors and follow up on AG's Management Letter and the Management's response to the same.
5. Review of preliminary internal financial statements including budget review reports.
6. Review of annual financial statements for compliance of accounting standards and financial reporting standards.
7. Interaction with the Internal Auditors and External Auditors.
8. Ensure that the Senior Management staff are familiar with the statutory and other rules and regulations and review their compliance of statutory and other rules and regulations.
9. Review Internal Auditors' report/ queries regularly and ensure prompt action taken by each Head of Divisions on short comings pointed out.
10. Review External Auditors' report/ queries and take corrective measures as may be required to avoid repetition.
11. Review the implementation of recommendations of the Committee on Public Enterprises (COPE) and monitor actions/ ratifications on them from time to time.
12. Review the continuing impartiality of the Internal Auditors and their effectiveness.
13. Review the Internal/ External Audit Reports, Management Letters and the recommendations of COPE and help the Board to take remedial actions.
14. Assist the Board to introduce and implement adequate internal control system.
15. Meet at least once in three months and report its recommendations to the Board of Directors soon thereafter, along with the minutes of the meeting to facilitate taking corrective measures.

Financial Reporting

The Committee reviewed the effectiveness of the Financial Reporting System in place in order to ensure

reliability of information provided to the stakeholders during the reporting period. The Committee assisted the Board of Directors to discharge their responsibility for the preparation of true and fair financial statements in accordance with the books of account and Sri Lanka Accounting Standards. The Committee reviewed the adequacy and effectiveness of the internal control system and procedures to provide reasonable assurance that all transactions are accurately and completely recorded in the books of account. The Committee reviewed interim financial statements prepared on monthly basis together with supporting information that included significant assumptions and judgments made in the preparation and presentation of financial statements. Also Committee reviewed draft financial statements prepared for the year ended 31 December 2021, Draft Budget prepared for the year 2021 before submitting them to the Board.

Having assessed the prevailing Internal Control systems and procedures, the committee is of the view that adequate controls and procedures are in place to provide reasonable assurance that the financial position of the company is well monitored and accurately reported.

Internal Controls

The AMC assessed the effectiveness of Internal Control over financial reporting for the year ended 31 December 2021. This process assessed the adequacy and effectiveness of the Internal Controls in order to mitigate various risks and to ensure compliance with laws and regulations. The AMC ensures that appropriate action is taken by the Management on the recommendations of the Head of IA&QA to improve the effectiveness of the Internal Control systems of AASL. The basis of Internal Control framework enables the Board of Directors to pursue its functions and take necessary measures.

Internal Audit

The Internal Audit (IA) function is an independent and objective assurance function which supports AASL in improving its overall control framework. The IA function contributes to the maintenance of systematic and disciplined approach to evaluate and improve the design and effectiveness of AASL's Risk Management, Control and Governance processes.

The AMC ensured that Internal Audit function is independent of the control of those who are responsible for actually carrying out the financial and accounting operations of AASL, as well as those who are engaged in the execution of schemes and projects or performance of works and services rendered by AASL in line with Good Corporate Governance practices and that it is performed

with impartiality, proficiency and due professional care. The AMC monitored and reviewed the scope, resources, extent and effectiveness of the activities of IA&QA Division.

The AMC reviewed, assessed and approved the Annual Internal Audit Plan for the year 2022. The AMC also reviewed and monitored management's responsiveness to the significant audit findings and recommendations of the Internal Audit.

External Audit

As per the Article 154 of the Constitution, the Auditor General has been empowered to carry out the external audit of AASL. Accordingly, the Auditor General acts as the External Auditor of the Company for the year ended 31 December 2021. AMC closely liaises with External Auditor who is responsible for expressing an opinion on the conformity of the financial statements with the Sri Lanka Accounting Standards.

The External Auditor as an independent observer was invited for all AMC meetings, which enabled the committee to bear their views and discuss their insights on regulatory and compliance requirements and control or procedural weaknesses if any.

Good Governance

The AMC could contribute immensely to promote the Good Governance, proactive culture in AASL by educating the importance and necessity to follow the regulatory requirements such as PED circulars etc.

Conclusion

In its exertion, the Audit and Management Committee has sought to balance independent oversight of the AASL's businesses with the support and guidance to the Board of Directors to fulfill their obligations and responsibilities in relation to financial reporting processes, adequacy and effectiveness of internal control systems, external audit and AASL's process for monitoring compliance with laws and regulations. The Committee believes that there are many reasons for the Audit and Management Committee to be confident that it has carried out its duties successfully and to a high standard during the year, thereby helping to enrich the value of the Company.



G A A Priyantha

Chairman – Audit and Management Committee (AMC)

10th June 2022



HELPING VISITORS EXPLORE WITH THE BEST IN TECHNOLOGY



Management Discussion and Analysis



FY 2021 as a snap-shot

The financial year 2021 tested our mettle in facing continuous challenges brought up by the outbreak from the previous year as demand for air transport and international travel headed South due to travel restrictions, border closures, lockdowns and fear of spread of the virus. As a result, traditional airport revenue sources could not generate revenues as much as they did before. However, our country's relative recovery from the pandemic gave birth to hope by the fourth quarter of 2021 earlier than we expected. AASL ended up with a shrunk net loss of LKR 1.1 billion in 2021 with a LKR 574 million marginal operating profit reported in fourth quarter, by contracting the previously reported highest ever net loss of LKR 2.1 billion in 2020.

The company's effort to ensure operational and business continuity to sustain in the long run is elaborated in this review.

Key Performance Highlights of AASL in FY 2021





Overview of the Industry

Global Context

According to the latest International Civil Aviation Organization (ICAO) economic impact analysis of COVID-19 on civil aviation, global passenger traffic recovered marginally in 2021 with 2.3 billion passengers worldwide or 49% below pre-pandemic (2019) levels, however up from the 60% decrease witnessed in 2020.

During the same time period, airline seat capacity increased by 20% globally, outpacing increases in passenger demand. In 2021, the global passenger load factor was 68%, down from 82% in 2019, and airlines worldwide lost US\$ 324 billion, down from US\$ 372 billion in 2020.

Due to a substantial increase in COVID-19 infections in the first quarter of 2021, the global aviation traffic recovery rate slowed. In the second and third quarters, the situation stabilized marginally, owing to growing vaccination rates and corresponding relaxation of travel restrictions in several parts of the world during peak travel season. However, with the emergence of the Omicron variant in the fourth quarter, this upward tendency suddenly ceased.

Despite Omicron disruptions, air travel continued to pick up until the end of the year as more markets reopened due to vaccination efforts. Industry-wide Revenue Passenger Kilometers (RPKs) in 2021 increased to 41.6% up from 34.2% in 2020, however still down 45.1% compared with Pre-COVID period in December 2019.

Sri Lankan Context

Sri Lankan economy recorded a positive growth of 3.7% in 2021 compared with the decline of 3.6% in 2020. In contrast to 2020, international passenger movements in our airports and overflying movements decreased by 37% and 43% respectively in 2021, while international aircraft movements and cargo movements remained same.

Impact of Macro-economic Factors

A multitude of factors in the macro-economy negatively impacted the airport and aviation operations in Sri Lanka in FY 2021. The major factors include:

➔ Demand for international travel and tourism

Airport business is primarily driven by demand for international air travel. Therefore, all aeronautical revenues and most of the non-aeronautical revenues depend on the demand for air travel. A significant portion of the passengers using the airport are tourists (25% – 40%).

Management Discussion and Analysis

Due to the pandemic, air travel decreased drastically around the world affecting the global and domestic airports and the aviation industry as a whole.

→ Exchange rate fluctuation

Approximately 50% of AASL earnings are in foreign currencies. Depreciation of the Sri Lanka Rupees against foreign currencies improved revenue significantly. This includes investments denominated in USD and their interest earning. On the other hand, the depreciation of the rupee badly affected foreign debt obligations and payment of loan instalments. However, the benefit was minimal as majority of AASL's loans are in Japanese Yen (JPY) which did not fluctuate much during the year.

→ Employment

Employment levels of economies directly affect international travel. With the pandemic affecting income and employment, most travelers limited their overseas travel. Sri Lankan business organizations also canceled foreign training for staff, participation in business conferences, seminars, and Sri Lankan migrant workers also had restricted movements. These had an unfavorable impact on air travel and airport revenues.

→ Interest rates

While interest rates remained relatively stable throughout the year, AASL was not in anyway exposed to lending rates as the company did not obtain new loans during the year. On the other hand, the company's interest income was not affected either due to volatility in interest rates during 2021.

Remained Resilient and Persistent

AASL took swift actions to remain resilient and persistent. AASL optimized opportunities of the macro-economic situation that prevailed during the year under unfavorable market conditions and macro-economic factors.

Re-stabilization of Flight Network

Prior to Covid-19, over 30 scheduled airlines connected through Sri Lanka's airports and certain airlines completely dropped from the list in 2020. In 2021, many airlines confirmed the recommencement of scheduled flights starting from lower weekly frequencies with an expected gradual increase. IndiGo, Swiss International, Vistara and LOT Polish resumed operations during Q4. Further, two new airlines commenced operating from/to BIA. Air France commenced operations on the route Paris to Colombo via Male and Air Astana the flag carrier of Kazakhstan commenced scheduled operations to BIA from December 2021.

By bringing back strategic airline partners who enjoyed grandfather rights from the inception of our main international gateway, on the back of tireless efforts by the country, the flight network was re-established. AASL made an effort to negotiate with airlines by attending airline forums such as 'Air Service World Congress - Forum 2021' held in Dubai and 'World Routes Promotional Event - 2021' held virtually. The KPI on positive airlines moves to commence negotiations, recommencement, and increase in flight frequencies started moving upwards significantly though these efforts flourishing country's hopes on tourism and aviation.

Airports and the air-traffic statistics in the limelight

When the nation tries to achieve the lost glory in tourism due to the unprecedented impact of the pandemic, the inbound tourism numbers along with all air traffic statistics namely aircraft movements, passenger movements and cargo movements of airports under AASL's purview were in the limelight of all concerned. This was mainly due to tourism and aviation accounts for 12% of the country's GDP and is the third largest foreign income earner for the country.

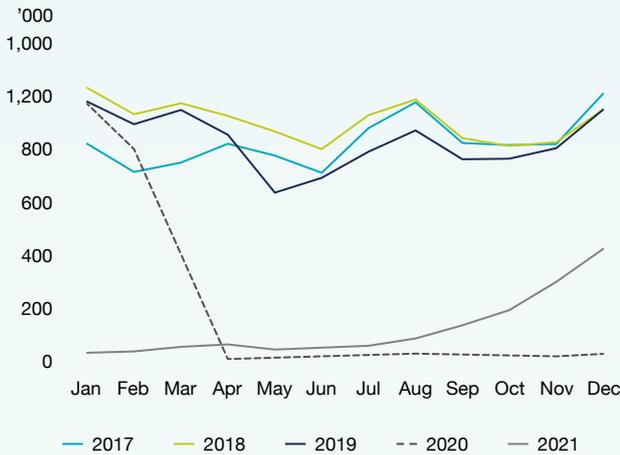


Water Canon welcome for 'Air Astana'

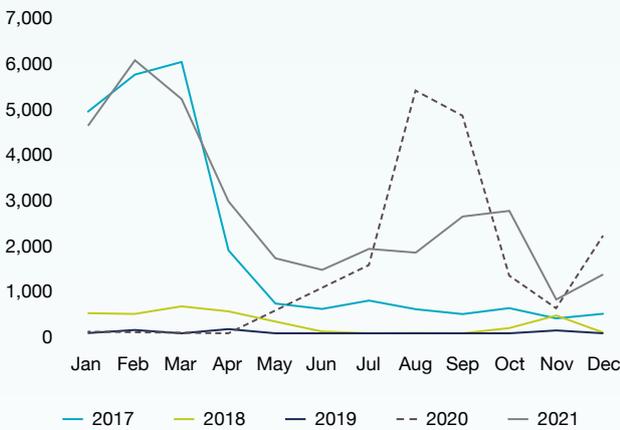


Official celebration of resumed 'Swiss International'

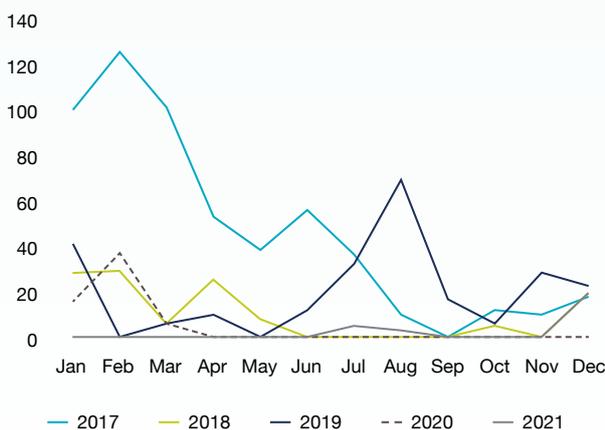
BIA Passenger Movements



MRIA Passenger Movements



CIAR Passenger Movements



BIA

Being a challenging year, BIA handled only a total of 24,336 Aircraft movements of comprising 20,607 international aircraft movements and 3,729 domestic aircraft movements. In 2021, BIA was used by 1,472,506 international passengers and 127 domestic passengers. The total cargo handled by BIA was 200,138 MT. Apart from cargo movements, all other air traffic statistics of BIA showed a reduction compared to the previous year. Accordingly, aircraft movements and passenger movements have reduced by 2% and 37% respectively. However, cargo movements have increased by 33% against 2020.

MRIA

Amidst the COVID-19 global pandemic, MRIA recorded the highest number of passenger arrivals in 2021 since its inception in 2013. This was recorded in a back-drop where the national carrier Sri Lankan Airlines was not flying to MRIA since 2015 due to its restructuring efforts. MRIA handled a total of 722 aircraft movements and out of which 584 were international aircraft movements while facilitating for 32,957 passenger movements. 41 MT of cargo were handled during this period

MRIA was the selected airport by AASL to conduct the pilot project at the end of 2020 under the tourism bio-bubble concept. With successful proof of implementation, MRIA gathered momentum in in-bound tourism which complemented our destination marketing efforts.

CIAR

When BIA and MRIA were connected to the globe as the country's two international gateways, CIAR served as a preferred choice of the niche market – International Corporate Jets. While serving as the country's key domestic airport in promoting domestic aviation CIAR facilitated training flights of all types. It handled a total of 22,043 aircraft movements (including training flights) facilitating 3,011 passenger movements during the year 2021. Training flights only operated by the pilots were significant and contributes to increase the aircraft numbers with only single passenger addition per aircraft into passenger numbers.

Jaffna International Airport

Following the COVID-19 outbreak, no international operations were carried out at JIA during the year under review as per a policy decision taken by Government of Sri Lanka (GoSL). AS a result JIA handled only 32 domestic movements with 110 passengers on board during the year 2021.

Management Discussion and Analysis

Batticaloa International Airport

As per the business plans of AASL for all airports, BTIA will continue to serve as a domestic airport since its reopening in 2018. In 2021, BTIA facilitated 258 aircraft movements and 1,082 passenger movements. Both CIAR & BTIA require further service facilities and infrastructure to meet the standards of BIA and MRIA.

Survival of the fittest

AASL had to temporarily put on hold growth plans identified in our business plans due to the external adverse environment. Hence, 'Survival of the Fittest' was the prime aim in sustaining in the long run. Addressing stakeholder expectations and value creation, while concentrating on secondary revenue sources other than the international passenger and aircraft movements were the main focus in our survival mantra.

Change in the stakeholders' value proposition

With the sudden slip in passenger numbers which was spanning for over a year, AASL continued to offer the rebates to our concessionaires in terms of concession and rental fees in a bid to share the financial burden faced by them which are the two out of five top revenue components of AASL.

When the airlines shifted its gears into a complete cost focus after the pandemic, AASL took steps in offering concessions for both MRIA and CIAR by waiving off both landing and parking fees and embarkation levy to provide some cushion for the coffers of airlines while the passengers were relieved through low ticket prices. The market development was the aim which is vital in the long run to achieve ROI.

Ancillary Income became key

When many airports in the world were posting losses due to no runway success resulted by the Covid, AASL concentrated on ancillary sources of revenue within the framework of airports business as airports are meant to do the airport business and there is least room for business diversification.

Domestic aviation to unleash its potential

AASL tied up with domestic carriers in promoting Sri Lanka's domestic airports as well as famous tourist hot-spots by carrying out joint marketing campaigns with them while providing necessary Infrastructure, hanger facilities and the services. Domestic aviation was a strong segment in aviation in Sri Lanka in the 1970's prior to the ethnic war with the LTTE and the potential is yet to unleash.



Floor Plan expansion discussion at site at CIAR



Taxiway refurbishment at CIAR

→ **Setting up a Ground-handling arm**

By going in line with the statutory powers vested with AASL in providing ground handling services at MRJA, CIAR, JIA and BTIA subject to necessary regulatory approvals as per the extraordinary gazette notification No 1922/4 dated 07 July 2015 and also the extraordinary gazette notification No 2144/64 dated 11 October 2019, AASL established a new ground handling unit at CIAR as the initial step with the primary aim of building up a pool of human resources by understanding the time taken in the learning curve.

Srilankan Airlines was the only service provider in international ground handling in Sri Lanka and the existing pricing rates are to be brought down to make it attractive for the Low Cost Carriers (LCCs) as well as for the international Corporate Jets and Private Jets segments. Understanding that, change in pricing as a crucial requirement of the industry to move on in the long-run and also giving due consideration on the requirement to have a Contingency Plan for Ground Handling given the on-going business restructuring plans of the national carrier, were the top-most reasons why AASL decided to venture into ground handling operations.

AASL trained 30 existing staff and newly hired 08 staff with expertise during the year 2021. The Capital assets acquisition was not required as the major portion of the equipment was available under AASL's possession while some were hireable at a low fee.

→ **Strengthening the company's training arm**

The Civil Aviation Training Centre and the training arm of AASL was rebranded as the "Sri Lanka Airport & Aviation Academy" (SLAAA) in 2021 as it already equipped with all amenities required to be listed as an academy at national level

→ **Foreign ties by SLAAA**

The Diploma in Aviation Studies conducted by the SLAAA has been recognized by the prestigious Massey University of New Zealand for credit transfer to gain lateral entry to the second year of the university's Bachelor of Aviation degree programme enabling the students who successfully complete the Diploma can directly enroll for the second year of the 3-year degree at Massey. An MoU was signed in November 2021. This provides a savings for the students by way of tuition fees and overseas living expenses for one year while saving foreign currency for the country as well.



Awarding the ground handling training completion certificates



Plaque opening marking the rebranding of CATC

Management Discussion and Analysis

→ Non-aviation events

In a bid to popularize the airport as a choice among travelers preferably of domestic travelers and also as a mode in earning additional revenue, AASL commenced renting out the location of CIAR for photography, fashion shows and alike events.



Asia star gala 31st Night



Domestic Aviation Promotion Give Aways



Back to the Future

In order to make our future ready in the competitive market place, AASL continued to carry out capital projects which are mission critical. Most of these capital expenditure will have a longer pay-back periods, while the customers and all users of the airports will be immediately benefitted through comfort, reliability and safety.

New Capacity additions

→ Second Terminal (T2) Project of BIA

The second terminal project of BIA is moving ahead with the Package A work which is the passenger terminal and associated works with a progress of 3% at the end of the year (targeted progress was 4%). The scheduled construction period is 36 months and the construction commenced on 15th December, 2020. This project is funded by a loan from Japan Incorporation Construction Agency and the total estimated cost of the project is JPY 41,554 million (LKR 35,136 million).



T2 Package A Construction Work

The Package B which is the construction of remote apron and taxiways completed during the year under review and declared open for airlines on 25th of November 2021.

Expected capacity / facility enhancement with the T2 (Package A and Package B projects) in comparison with T1 are;

Enhancement type	Existing Terminal (T1)	Package A & B (T2)	Total (after completion of T2)
Floor area	90,000 m ²	185,900 m ²	275,900 m ²
Check-in counters	53 Nos.	96 Nos.	149 Nos.
Emigration counters	21 Nos.	32 Nos.	53 Nos.
Immigration counters	27 Nos.	56 Nos.	83 Nos.
Airside security control positions	8 Positions at Pier No. 1 and 2 Positions at bus gate	20 Positions at pier No. 2 and 3	30 Positions
Contact gates	8 Nos.	16 Nos.	24 Nos.
Bus gate	6 Nos.	10 Nos.	16 Nos.
Airline lounges	4 Nos.	6 Nos.	10 Nos.
Baggage claim carousal	6 Nos.	7 Nos.	13 Nos.
Baggage make-up carousal	3 Nos.	7 Nos.	10 Nos.
Aircraft parking stands	26 Nos.	23 – 28 Nos.	49 – 54 Nos.
Passenger handling capacity	6 million p.a.	9 million p.a.	16 million p.a.

➔ Construction of the Import Cargo Terminal

This will enhance cargo handling capacity of BIA by 150,000 MT per annum to increase the total handling capacity up to 400,000 MT. The project started in January 2021 and showed a progress of 24% by end of 2021. It is expected to be completed in January 2023. The total cost of the project is LKR 2.6 billion.

Management Discussion and Analysis

Remodelling and Restructuring

As a solution for over-capacity that was experienced during the pre-pandemic era, in 2021 AASL continued to carry out certain projects in the existing Passenger Terminal Building (PTB) at BIA to effectively utilize the existing capacity while enhancing the Level of Service (LoS).

➔ Refurbishment of “Araliya” Lounge

As part of the lounges upgrade project which happens in a phase out manner, refurbishment of the “Araliya” lounge was completed in February, 2021. The company spent LKR 202 million for this project. The new facility is spacious with comfortable and ample seating, soothing ambience and better-quality access to airport customer service, providing much valued comforts to weary travelers seeking a hassle-free transiting and boarding experience. BIA facilitates its esteemed partner airlines by accommodating the expectations of high-value business passengers, by hosting them in its top-class Araliya lounge.

➔ Relocation of Emigration Area

Relocation of emigration area saw a 98% progress as of end of the year which is aimed at adding 23 new emigration counters with the aim of facilitating for faster clearance procedures by reducing the delays in overcrowding situations.

➔ New Immigration Hall and Electronic Mall with bonded facilities

Construction of new immigration hall and electronic mall at arrival at BIA reached 56% progress which includes a refurbishment of existing 1st floor duty free shop area with the shifting of shops to the 2nd floor to accommodate re-arranged emigration hall with additional space. Total project values are LKR 472 million, and LKR 430 million respectively.

The construction of a bonded warehouse with 25 bond spaces where electronic mall operators can store goods at the port of entry until they are ready for distribution also was in progress with 88% progress by end of 2021. The company spent LKR 120 million on this project.



Ground breaking ceremony of the Import Cargo Terminal



Work in progress of Import Cargo Terminal



Refurbished Araliya Lounge



Relocated Emigration Area

Technological Improvements

Several new technological introductions were made and upgrading were done in existing technologies with the aim of supporting the business operations.

→ ERP Phase I

As per the company's plan to introduce a fully-fledged ERP system, AASL completed the phase 1 of the project during the year 2021, which covered finance and supply chain modules. The phase II of the project is presently being carried out by obtaining the service of an external consultancy company to identify information requirements and to prepare Request For Proposals (RFP) accordingly. The cost of the Phase 1 project is LKR 180 million approximately.

With the implementation of ERP Phase I - supply chain and finance modules, quicker approval cycle times, less paperwork, better inventory tracking and planning, availability of analyzed information are the key visible benefits.

→ Board Governance Process

A digitalized board governance solution was rolled out in 2021 after a completion of a successful trial period in 2020. Board members and the company secretary as well as the invitees got benefited with this digitalized solution through significant time savings, traceability and tracking facilities related to decisions, ability to make collaborative decisions with all party consensus, minimum paper usage, efficient document management and archiving etc.

→ POS System

AASL introduced a Point of Sales (POS) system for duty free shops operated at BIA by deploying a software developed by the IT team of AASL, in order to provide passengers and shop operators with better and convenient service while assuring transparency of all transactions.

→ Launching Google Indoor Maps

Google Indoor Maps which is accessible on smart phones and tabs on both Apple and Android devices was launched at BIA in April 2021, becoming the first indoor facility to enable this feature in Sri Lanka. Google Indoor Maps puts yet another resource in the hands of passengers and visitors for finding out many possibilities available to them before they start their journey or arrive at the airport.

Passengers and visitors at BIA can access detailed digital floor plans of the Departure, Transit and Arrival Terminals with just a few easy swipes on smart phones or tabs. Sri Lankan Airlines as the authorized ground handler of BIA and AASL as the airport operator took on this project in order to make the passengers' journey more rewarding.

→ Aeronautical Information Management System (AIM)

New AIM System was introduced to improve the aeronautical information services at the cost of LKR 750 million. The project had achieved a progress of 92% progress at the end of 2021.

→ Air Traffic Management System (ATM)

New ATM System was established with 85% progress by end of 2021 for the purpose of improving air traffic control operations and the cost was LKR 965 million. This is a life-cycle replacement done by replacing the old Terminal Radar Data Processing System (TRDPS) and the new ATM system comprising of numerous technological advancements such as integrating the ground-based ADS-B surveillance system with provision for the addition of several multiple surveillance data inputs such as Mode-S RADAR and WAM, consisting of standby systems ensuring dual redundancy and also a bypass system with a third level of redundancy to be used in a failure of operational system. Standalone position delivered with the new system assures standalone ATM capabilities improving the serviceability and the reliability of the system to 100%. Apart from that it has an offline test system which can be used for the hardware testing and software upgrade testing without interfering with the operational ATM system.

→ Voice Communication Switching System (VCSS) Project

The Voice Communication Switching System project started its on-site activities in the end 2021 and has reached its final stage of completion with parallel operations in Area Control Center at CIAR and BIA. This will provide ATC user-friendly Human Machine Interfaces (HMI) for all radio and telephone conversations with pilots and other control centers. Voice over Internet Protocol (VoIP) communication has been achieved through the newly implemented VCSS increasing the reliability and efficiency of the system. VoIP compatibility tests with extended range VHF communication system at Piduruthalagala Radar and Communication center, were successfully completed and connectivity was established.

→ Standalone Automatic Weather Observation System (AWOS) Installation at JIA

AWOS is one of the critical systems providing ground level weather data to aircraft. New system is capable of providing highly accurate data on wind speed, wind direction, barometric pressure, humidity and temperature information to pilots to operate smoothly. This project was funded by the Civil Aviation Authority of Sri Lanka and the installation process was carried out by AASL.

Management Discussion and Analysis

→ Digitalized Health Declaration Forms

AASL introduced an online health declaration system to reduce the usage of physical form filling and encourage the passengers to opt into an online platform reducing the physical contact and passenger processing time.

→ Airports Digitalization Pilot Project

As part of our digitalization efforts "Smart Check-in", "e-Gates", "All-in-One App" and "Web-based passenger assistance/information services" have been identified and pilot projects of the same will be implemented in 2022. State Ministry of Digital Technology and Enterprise Development together with Information and Communication Technology Agency (ICTA) will provide the necessary support services and monitoring of the project activities.

Future Note

The strategic focus for the upcoming year would be on recovery. For the recovery and restart of the grounded aviation industry, it is imperative for passengers and airport users to feel confident that their well-being is ensured. With the relative speed of recovery from COVID-19 outbreak, Sri Lanka gained the confidence of the general public and travelers around the world.

Strategic recovery would bring a sizeable amount of foreign currency into the country. Unfavorable economic conditions in the country are challenges in future that would need to be addressed to grow the confidence of international tourists traveling to Sri Lanka.

Getting ready for T2 operations is expected to be a major concern in the coming years. As the commencement of the operations will require great collaborative efforts with stakeholders and also some strategic moves in marketing, human capital development, formulation of commercial plans and selection of the most viable business model, operational readiness and transformation; few working committees have been formed with the members of the Board of Directors and Senior Management Team in order to adopt the most sound implementation plans. The present terminal (T1) refurbishment plans are also in cards to match the standards of T2.



Artist view of T2



Sustainability Management



AASL Sustainability policy

AASL reiterated its commitment to environmental sustainability by promoting greater long-term sustainability for employees and all stakeholders, with longer term benefits with a healthier operation. AASL concentrates on 04 areas namely emission control, minimizing the carbon footprint, supporting the regeneration of natural resources, and eliminating barriers that hinder human sustainability.

Emission Control

The Company continuously evaluates all substances discharged or released to the natural surroundings thereby minimizing emissions and controlling the greenhouse effect.

- Sewerage Treatment Plant - control the toxicity levels of effluents discharged to the environment
- Incinerator and waste management - AASL's waste management facility is a state-of-the-art solid waste disposal incinerator that was commissioned under the Environmental Protection License (EPL) issued by the Central Environmental Authority (CEA).

Minimizing the Carbon Footprint

AASL's energy management practices were applied through a range of smart, sustainable solutions.

- Existing buildings were refitted with energy efficient lighting, lighting control and motor control systems (eg: T5 fluorescent fittings, C-Bus control system, drives for AHUs, PAUs).
- Integration of the new chiller systems with the existing building management system for chillers
- Use of ballasts and bulbs during remodelling projects
- Upgrading building air-handling units with variable speed drives and soft start controls
- Introduction of solar heaters for hot water systems
- Optimizing the use of natural lighting with skylights and the dimming regulators
- Usage of motion sensors, occupancy sensors in the passenger terminal building
- Power factor corrections, key tag activated master switches at the transit hotel, change over from hot cupboards to microwave ovens for warming of food resulting in an energy saving
- Use of pedestal fans after office hours and during weekends in the office area without the use of air conditioners

- 200 trees located in the airport premises with high environmental value were root balled to replant at AASL's lagoon land and another 200 trees approximately have been earmarked to be preserved onsite without cutting them down for construction purposes. Apart from this preservation plan, new tree plantation activities have been initiated by AASL together with BIA development projects.

Supporting the Regeneration of Natural Resources

AASL has accepted the challenge to ease the dependency on natural resources by seeking alternative resources to meet corporate needs thereby effectively supporting regeneration efforts.

Water conservation - Over 50%, approximately 1,200 m³ of the total 2,200 m³ of the daily drinking water requirement at the BIA is met by water from the bore wells drilled on the premises.

Eliminating barriers that hinder human sustainability

→ Assistance in tertiary education in Sri Lanka

The company provides training to undergraduates of Sri Lankan Universities, diploma holders and industrial trainees in various disciplines including IT, finance, electronics, mechanical engineering, general administration, transport and logistics management and automobile engineering.

→ LKR 10 million to support COVID-19 patient treatment

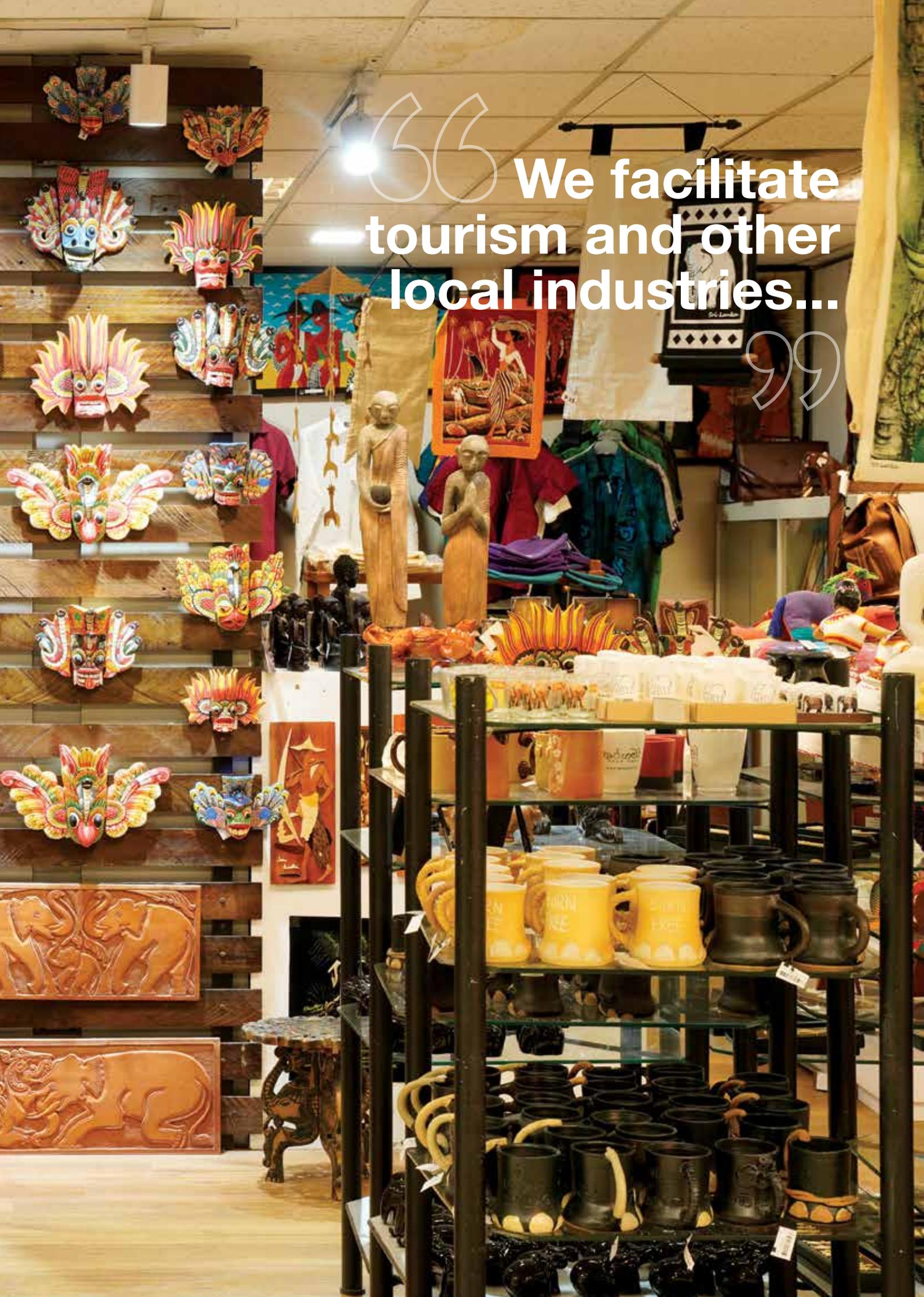
AASL donated LKR 10 million for the purchase of a PCR testing machine and equipment to meet the urgent medical requirement of the District General Hospital, Hambantota.

→ New traffic plan to ease-off congestion in and around BIA

With a view to easing-off traffic congestion around Katunayake, the company took steps to construct 660m in length, four-lane dual road from Averiwatta junction to BOI entrance including junction improvements. The project was jointly funded by AASL and Road Development Authority (RDA). AASL spent LKR 900 million out of company funds. This was implemented as an environmentally support project as it contributes to reduce carbon emissions generated by heavy traffic congestion.



“ We facilitate
tourism and other
local industries...”



FINANCIAL REVIEW



Revenue

7,879 LKR Mn
(2020 LKR 8,011 million)



Finance income

3,321 LKR Mn
(2020 LKR 3,665 million)



Operational Loss

3,776 LKR Mn
(2020 LKR 4,611 million)



Loss After Tax

2,084 LKR Mn
(2020 LKR 2,504 million)



Assets

126,844 LKR Mn
(2020 LKR 103,216 million)

The financial year ended 31 December 2021, AASL, managed to dwindle its operational losses caused by the COVID-19 pandemic in the previous years. While lower passenger and airline arrivals hampered forecast of growth targets, the Company maintained its revenue similar to 2020 but closed the year on a positive note as borders and air travel recommenced during the latter part of the year supported by the global vaccination drive. This resulted in reporting an operational profit for the fourth quarter despite the overall performance of the year being negative.

Being an industry that is dependent on and influenced by global socio-economic conditions, the year's slow global recovery, economic and health concerns negatively impacted the business operations in 2021. However, compared with 2020, the financial year under review experienced an upward trend in the Company's main business activities in the latter part of the year.

Cargo operations were the least impacted business segment due to the pandemic. Cargo movements grew significantly during 2021, with the exception of months when import and export requirements fell due to lower production or lockdown status.

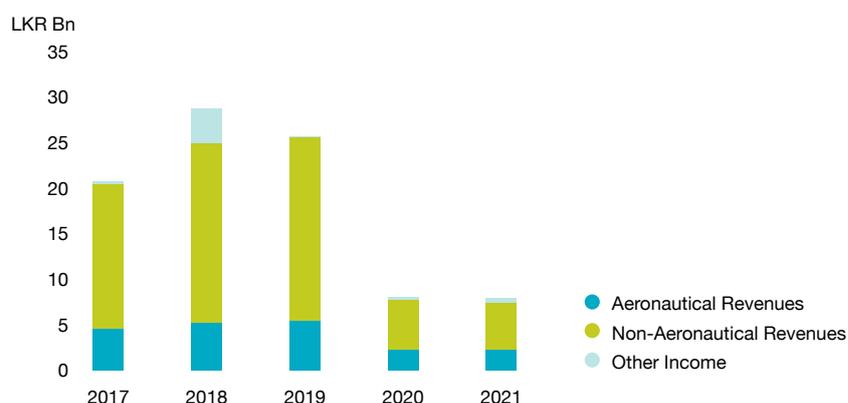
AASL was cautious in proceeding with planned projects and was compelled to cancel and postpone a number of projects due to financial limitations caused by the pandemic led financial crunch.

Revenue

AASL's conventional revenue streams were inactive for most part of the year due to boarder closures and lockdown. However with the vaccination drive setting in globally and lifting of travel restrictions, the revenue streams improved and recorded LKR 7,879 million. Of this, LKR 2,299 million was from aeronautical operations while non-aeronautical revenue being LKR 5,087 million. Other incomes recorded LKR 493 million.

Major Aeronautical Revenue	Major Non-aeronautical Revenue
→ Landing & Parking income	→ Embarkation Levy
→ Overflying income	→ Concession
→ Aerobridge income	→ Rental

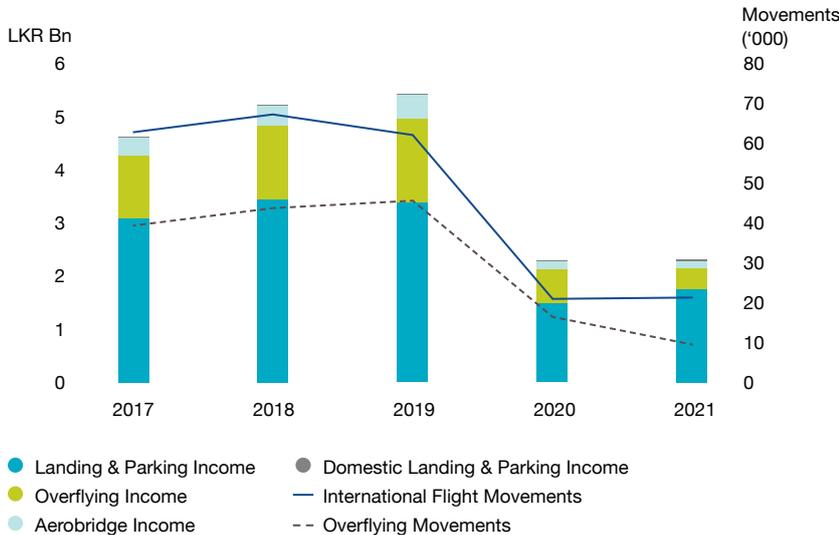
The company recorded Aeronautical Revenue of LKR 2,299 million during the year under review, which is almost same as aeronautical revenue recorded in 2020.



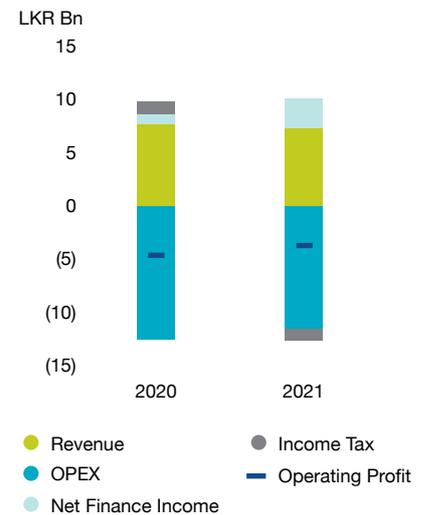
Behavior of Air Traffic Movements

Description	2021	2020	2019	2018	2017
International passenger Movement	1,505,479	2,375,056	9,958,688	10,884,028	9,957,502
International Aircraft Movement	21,204	20,881	62,195	67,351	62,850
Overflying Movement	9,339	16,370	45,674	43,804	39,413
Cargo Movement	241,506 MT	150,075 MT	259,089 MT	279,559 MT	274,044 MT

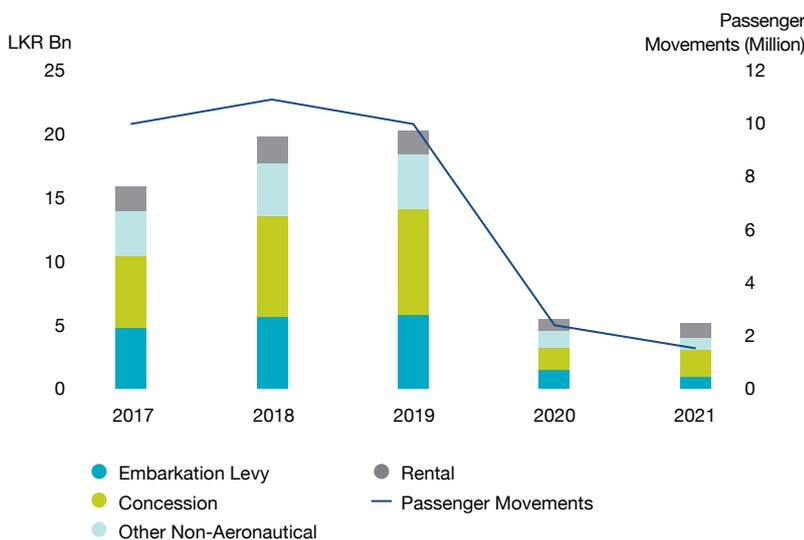
Financial Review



The company recorded a loss before tax of LKR 961 million in 2021. The company's loss after tax for the year was LKR 2,084 million.

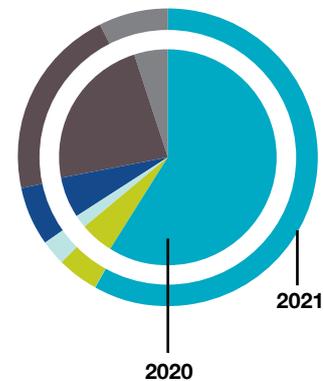


Non-Aeronautical Revenues reported LKR 5,087million for the year under review, a decrease of LKR 399 million, which is equivalent to 7% when compared with 2020. Even though, other categories of non-aeronautical revenue increased Embarkation Levy and Rental income decreased at a higher rate due to drop in passenger movements and rental concessions given to duty free tenants during the year.



Operating Expenses

AASL's operating expenses for the period reduced to LKR 11,655 million in 2021 from LKR 12,622 million in the previous year, which is a 8% change. While several cost management efforts were in place to minimize operational expenditure, the main contributor to the decreased operational expenses was the reversal of bad debt provisions by LKR 1,244 million. Depreciation expense and provision for gratuity were also decreased by LKR 207 million and LKR 196 million respectively



	2021	2020
Staff Costs	64%	59%
Provision for Debtors Impairment	-5%	5%
Repair & Maintenance	3%	2%
Electricity	7%	6%
Depreciation & Amortization	23%	23%
Other Expenses	8%	5%

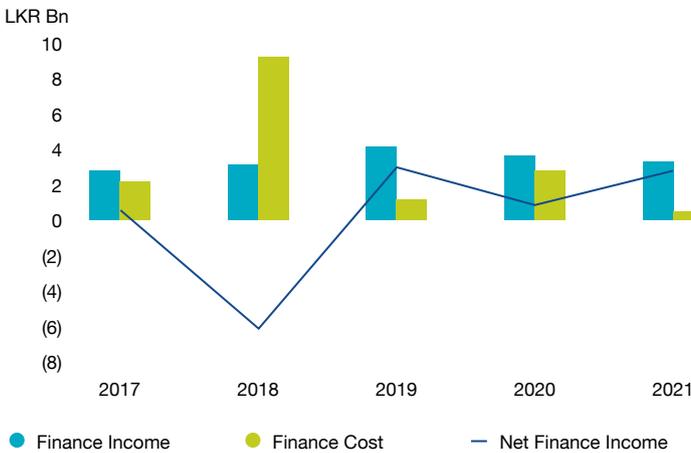
Profitability

The Company's profitability grew during the year under review in terms of reduced operational losses. Operational loss has decreased by 18% to LKR 3,776 million from LKR 4,611 million reported in the previous year. Increased exchange gains from the USD strengthening against the LKR supported the recovery of operational losses over last year.

Net Finance Cost/Income

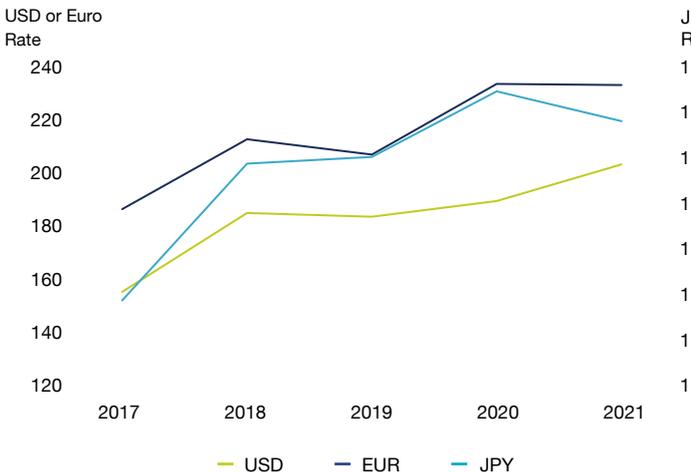
Irrespective of the decrease of finance income by 9%, Net finance income has been increased by 221% to LKR 2,815 million from LKR 878 million as a result of net exchange gain of LKR 634 million on conversions of foreign currency loans and deposits which was a loss of LKR 1,497 million in 2020.

The Sri Lanka Rupee depreciated against USD while appreciated against JPY during 2021. As a result, the conversion gain on fixed deposits denominated in USD went up to LKR 2,775 million from LKR 771 million in the year under review. However, exchange loss on loan conversion dropped to LKR 2,141 million in 2021 from LKR 2,268 million recorded in the previous year. This is explained by the fact that the Company’s loan portfolio consists of loans denominated in JPY as well which depreciated against LKR during the year.



Exchange Rate Gains

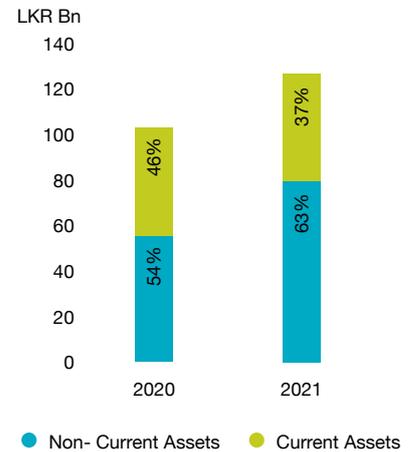
Sri Lanka Rupee depreciated by 7% year on year and escalated to LKR 203 USD (Selling rate) at the end of the year 2021. Despite Central Bank efforts to stabilize the rupee against the dollar, the selling rates of Sri Lanka Rupee against US Dollar continued to depreciate as export earnings and worker remittances coming into the country through commercial banks decreased after Central Bank fixed the LKR against the USD to avoid further depreciation of the rupee. But it was noted that LKR appreciated against JPY and EUR by 4% & 0.2% respectively.



FINANCIAL POSITION

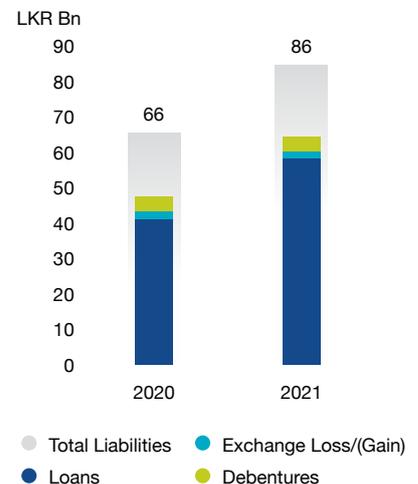
Assets

The company’s financial position as of 31 December 2021 was LKR 126,844 million, compared to LKR 103,216 million at the beginning of the period. Accordingly, total asset balance grew up by LKR 23,628 million, when compared to the amounts at the beginning of the year. The main reason being increase in capital work in progress due to Phase II stage 2 construction work and addition of PPE during the year.



Liabilities

Total liability increased by LKR 19,297 million and it is purely explained by the loan disbursements on behalf of Phase II project.



Financial Review

Working Capital

At the end of the year under review, AASL's current assets and liabilities were LKR 47,430 million and LKR 7,927 million, respectively, leaving a Net Working Capital Balance of LKR 39,503 million. Compared to the previous year, there has been 5% decrease in working capital due to decrement in short term investments and cash & cash equivalents by LKR 831 million and increment of short-term loan obligations by LKR 550 million.



Debt and Capital Structure

The overall borrowings of the company as of 31 December, 2021 were LKR 68.7 billion, 34% up from the previous year.

The Company made capital repayments of foreign loans and local loans totaling to LKR 4,289 million and LKR 133 million respectively. During the year, a foreign currency loan disbursements of LKR 19,833 million on account of "Phase II Stage 2 Project" was received and no local loans were obtained.

Shareholder funds and equity accounted for 33% of the company's total assets base of LKR 126,844 million as of 31 December, 2021, while non-current liabilities accounted for 61% and current liabilities accounted for 6%.

When compared to the beginning of the year, there was no significant change in the company's capital structure.

In comparison to the value of 1.38 at the end of the previous year, the debt-to-equity ratio was 1.66 at the end of the current year.



Shareholder funds and equity accounted for 33% of the company's total assets base of LKR 126,844 million

Cash Flow

Cash & cash equivalents at the end of the period reduced by 50%, to LKR 413 million. This was due to partial withdrawal of investments in treasury bills to meet short term cash flow requirements.

During the year under review, operating activities resulted in a net cash outflow of LKR 715 million, against cash outflow of LKR 2,116 million in 2020.

When compared to the net cash outflow of LKR 1,654 million of the previous year, the Company had a net cash outflow of LKR 413 million.

Capital Management

The primary goal of the company's strategy on capital management is to maintain a solid capital structure and healthy capital ratios in order to sustain its operations and maximize shareholder value. The company keeps track of capital utilization using its total gearing ratio as depicted below.

	2021	2020
Total borrowings	68,724,683,990	51,172,796,305
Less: cash and cash equivalents (Note 17)	(413,045,010)	(826,225,883)
Less: Short term bank deposits	(41,515,132,946)	41,932,637,264
Net debt	26,796,506,034	8,413,933,157
Total equity	41,314,321,699	36,982,901,554
Total capital	68,110,827,732	45,396,834,712
Gearing ratio	39%	19%

Even though there was a net loss of LKR 2,084 million during the year, shareholder funds have increased by 12% to LKR 41,314 million from LKR 36,982 million. Main reason for this increase was revaluation reserve of LKR 5,766 million resulted from building valuation.

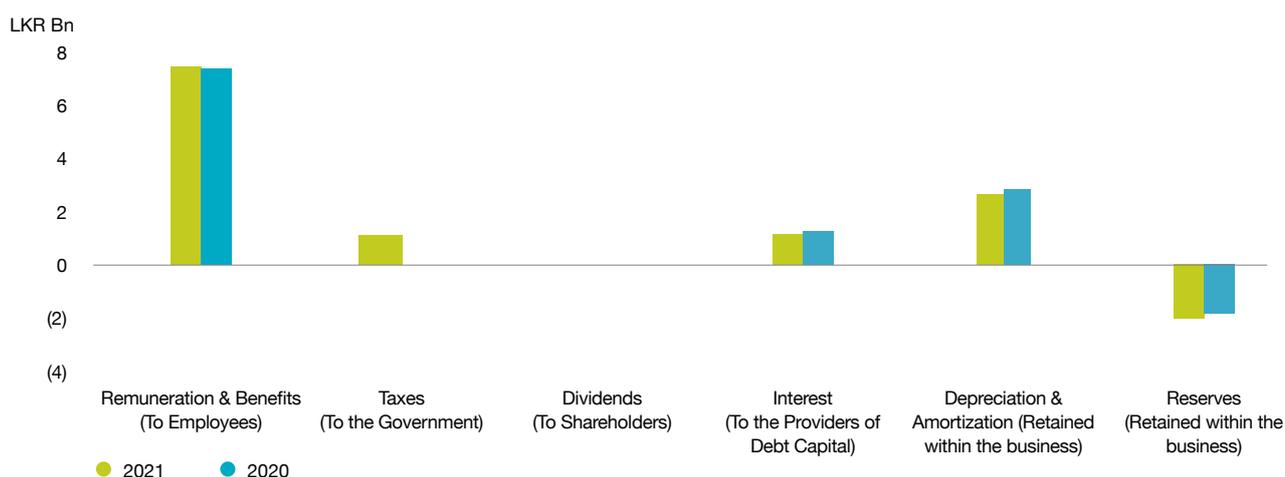
STATEMENT OF VALUE ADDITION

Amounts in LKR '000

	2021	2020
Revenue	7,386,170	7,776,338
Other Income	492,782	234,400
Finance Income	3,321,110	3,665,085
Gain arising on changes in Actuarial assumption	667,426	377,899
	11,867,489	12,053,722
Administration Establishment & Marketing Expenses	(1,509,513)	(2,345,566)
Value Addition	10,357,976	9,708,155

Distribution of Value Added

			%		%
To Employees	Remuneration & Benefits	7,496,875	72%	7,421,979	76%
To the Government	Taxes	-	0%	-	0%
To Share Holders	Dividends	-	0%	-	0%
To the Providers of Debt Capital	Interest	1,140,366	11%	1,289,674	13%
Retained within the business	Depreciation & Amortization	2,648,419	26%	2,853,960	29%
Retained within the business	Reserves	(927,685)	-20%	(1,857,458)	-19%
		10,357,976	100%	9,708,155	100%



Management of Human Capital



Human capital is the most important factor in AASL's earning potential and long-term viability, which we have fully embraced. AASL human resources strategy is established and focused on attracting, selecting, motivating, developing, and retaining the best talent and professionals.

Our human capital management has allowed employees to contribute effectively to the overall corporate direction as well as to achieve organizational goals and objectives. This includes but is not limited to recruitment & hiring, Performance Management, Training & Development and Welfare.

AASL's human capital has over the years been motivated to learn, adapt, innovate, and provide a creative drive that to ensure the organization's long-term success. As one of the most respected organizations in the public sector, AASL has attracted best talent in aviation in general disciplines in Sri Lanka.

Human Capital Profile

AASL has a diverse team of 3,985 (As end of 2021) employees who contribute to the sustainable growth of the company through consistent delivery and creation of shared value.

Aspect	Measure	Year		
		2021	2020	2019
Team Strength	No. of employees	3,985	4,098	4,182
Employee attrition ratio	Employee turnover as a percentage of average employees (%)	4.1	3.4	3.1
Gender distribution	Female employees as a percentage of total employees (%)	22	21	21
Age distribution	Percentage of employees below 40 years of age (%)	48	68	51
Knowledge and skills development	Average training hours per employee	35	9	12

Distribution of the employees into various categories are depicted below:

S/No	Category	No. of Employees
1	Executives	376
2	Supervisors/Technical Officers	262
3	Clerical and Allied	686
4	Skilled and Semi-Skilled Workers	2,093
5	Minor Employees and Unskilled	560
6	Casual and Trainees	8
	Total	3,985



● Executives	9%
● Supervisors/Technical Officers	7%
● Clerical and Allied	17%
● Skilled and Semi-Skilled Workers	53%
● Minor Employees and Unskilled	14%
● Casual and Trainees	0%

Employee Recruitment and Retention

During the year under review, AASL managed to absorb talent from different sources as depicted below.

Oder	Type	No.
1.	External Recruitment	72
2.	Internal Recruitment	29
3.	Fix Cadre Promotion	99
4.	Line Promotion	316
	Total	516



● External Recruitment	14%
● Internal Recruitment	6%
● Fix Cadre Promotion	19%
● Line Promotion	61%

Management of Human Capital

Method of Recruiting, Retaining and Promoting

The Company gives significant importance to attract fresh talent, retain and motivate existing talent whilst fostering employee productivity and satisfaction, thereby creating value for both the employee and the organisation.

The Human Resources (HR) Division continuously monitors its employee retention and turnover and seeks to address staff requirements. The HR Division adopts a comprehensive promotion, recruitment and selection method in order to acquire the best talent and to place them in suitable career paths.

Online Recruitment Tests

For the first time in AASL's history, an online examination was conducted for external candidates selection. SLAAA successfully conducted this online selection test for external candidates in September 2021 for recruitments of "Air Traffic Safety Electronics Engineering Officers". A mock test was held for the benefit of the applicants since it was a novel experience for many of them.

The entire test platform was developed by the Electronics Engineering Training wing of the SLAAA and was administered using the hosting infrastructure provided and supported by the IT Division.

Employee Value Creation

Nurturing Talent

In consultation with the supervisor, training needs of employees are identified at the point of setting their KPIs and development goals in the periodic performance evaluation form. These are analyzed and added into the separate lists collated by the HR division for annual training needs identification. Based on the data collated, the HR division develops customized and generic training and skills development programs with the identification of local and international training sessions

Bridging the Business Vacuum

AASL continuously navigated the business to ensure that the internal business structure is 'fool-proof' to face business challenges. If any gaps in the responsibilities assigned by the divisions hinder the competitive edge, necessary structural changes are carried out in line with the business strategy to fill those business vacuums. New positions are created to fill such identified vacuums. Cargo and Air Freight Management Division created in 2021 was the most recent such a move.

External candidates were selected in the event that the best-fit candidates were not found internally in filling key positions of the newly created divisions.

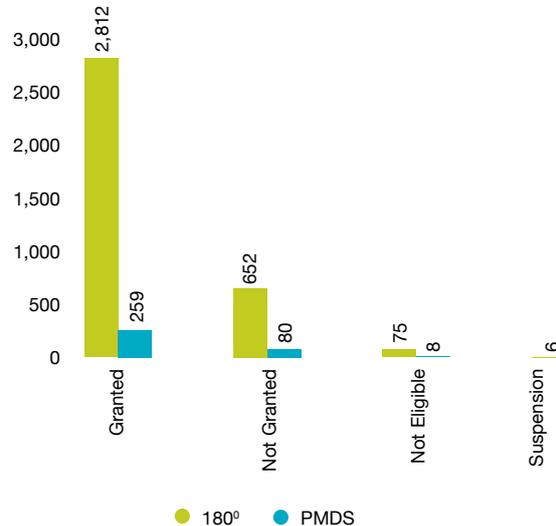


CATD officials monitoring the Online Examination

AASL Employee Performance Evaluation and recognition

Performance management system aims to improve the performance of the staff focusing on the achievement of goals and objectives of the company. Performance results are linked to the training and development opportunities, career development opportunities and also to the succession planning process to determine performance gaps, training needs, promotions and rewards.

The total number of 3,071 employees were appraised through the performance management system and granted annual increments based on the performance during 2021.



➔ **Celebration of International Day of Air Traffic Controllers at AASL**

The International Day of Air Traffic Controllers was celebrated at AASL on 25th October 2021 as a tribute to the services rendered by air traffic controllers who work day and night to make air travel safe. Sri Lankan airspace is one of the safest in the world. October 20th of each year, marks the anniversary of IFATCA (International Federation of Air Traffic Controllers’ Association), which was founded on the same day in 1961.



The webinar conducted in parallel to the Air Traffic Controllers Day

Employee Development

AASL continued to invest in training & development despite the challenges faced during the pandemic, in order to ensure that employees gained the required knowledge to unleash their potential.

During the year, AASL conducted a total of 34,442 training hours with the participation of 974 staff members. In keeping with the ‘new normal’, 90% of training hours were conducted using virtual training platforms with strict adherence to health guidelines. SLAAA made a saving of LKR 600 million approximately by providing training for AASL employees during the year, which otherwise would have spent on external training.

The objective of training was not limited to improving work related skills, it extended to personality development, emotional stability and physical fitness maintenance which correlate with tasks related skills.

Management of Human Capital

→ Surveillance Control Course on the New ATC Simulator

The Air Traffic Services Training Wing of SLAAA conducted its first surveillance control training programme using the new Adacel MaxSim 3D Simulator for a group of six air traffic controllers in September 2021.

This is the second surveillance control training conducted in Sri Lanka. The first was in 2007 on SLAAA's old simulator. Surveillance control rating marks the zenith of professional development for air traffic controllers. Three senior air traffic controllers with wide experience who had retired from services were recruited on contract basis and attached to SLAAA as instructors to assist the Chief Instructor of the Air Traffic Services Training Wing of the Academy.

→ Rapid Deployment Team under Aviation Security

In view of managing unruly and violent passengers as immediately as possible without compromising or disturbing other passengers, a team was trained with unarmed skills such as Marshal Arts and Karate to strengthen aviation security. This is a new introduction to airport operations and they are deployed at BIA passenger terminals a round the clock.



Employee Health and Safety

AASL placed significant emphasis on ensuring a safe working environment for all employees and took steps to ensure that health and safety concerns are prioritized and addressed. With the outbreak of the pandemic, the aviation industry was one of the worst affected and exposed. AASL took rigorous actions as to address this situation:

- Established a steering committee to work proactively and promptly in COVID-19 related matters.
- Safety gear worth Rs. 3.2 million per month were provided to all appropriate employees keeping in line with government safety guidelines.
- A total of over 16,000 doses of COVID-19 vaccines were administered to employees of AASL and the employees who work for other agencies housed at the airports, janitors, porters and construction contractor staff.
- Free of charge RAT/ PCR tests facilities & intermediary centres were organized for the employees with symptoms.



- Granted special paid leave, welfare reliefs and Care Centre facilities at private and government hospitals for infected employees
- Introduced Work from Home (WFH) and facilitated employees with required equipment to continue with WFH arrangements.
- Daily cadre deployment adjustments were also carried out by adhering to one third or half of staff deployment out of the total strength at a given time by taking into consideration of the requirement for physical presence and area of residence along with Covid lock-down areas.

Employee Welfare and Satisfaction

With the aim of improving work-life balance amongst the staff, employee welfare facilities were initiated. These include facilities and services provided in addition to remunerations.

Benefit Schemes for AASL Employees

AASL understands the importance of having attractive benefits for our employees. The Company endowed a host of benefits to enhance staff satisfaction levels. Corporate medical scheme, staff loan scheme, staff transport services, personal accident insurance policy, holiday bungalow facilities are some of the measures AASL continued to provide at a toll of approximately LKR 415 million per annum.

Capturing the Brand Value

AASL is recognized as a most sought after employer in the state sector and was awarded prestigious awards and accolades in the business field. The brand image helps us in attracting talent and reducing attrition.

Job Security

AASL adopted a 'zero lay-off' policy during the year amidst financial challenges, considering that 'job security' creates mental stabilization for employees to perform better. This was implemented at a time when airlines and airports around the world adopted staff retrenchment as a cost saving strategy.

Brain Champs

In order to keep employees current on AASL's business affairs and on industry trends and news, the 'Brain Champs' quiz session was organized by AASL 2021. The session was carried out monthly and was conducted on an online platform. The winners were declared within 24 hours. From the eight quiz sessions conducted, 48 winners were rewarded with appreciation tokens and certificates, while the highest achievers were awarded a domestic flight tour sponsored by a domestic airline partner.



Joy ride experience for Brain Champs winners



Winners and the Committee of Brain Champs Awards

Management of Human Capital

Uplifting Sporting Activities

AASL develops skills and team building of employees by encouraging them to engage in sports such as Cricket, Volleyball, Basketball, Elle, Swimming, Football, Hockey and Badminton. The Sports Club of the company launched several sports development activities for its members throughout the year.

AASL's team participated in the Mercantile Tournaments in many sporting events and won several accolades.



Winners of the Mercantile Badminton tournament

Future Outlook for Human Capital

→ Aspirations mapping

Employee aspirations are identified through performance evaluation forms and promotion interviews. They are captured in company strategic efforts by aligning them with corporate aspirations.

→ Skills and competency mapping to reach the next level of business maturity

AASL believes that next level of business maturity can be achieved by enhancing BIA's handling capacity by 1.5 times using cutting edge technology features. In order to make employees 'future ready' to take on the challenge of handling passenger terminal the skill gaps are being identified and required programs are being crafted to bridge the gap.

→ Succession planning

A comprehensive succession planning program is being developed by identifying all key positions for succession development. This will include cross-functional transfers and promotions. This will need to meet the responsibilities, skills and competencies between next level and level of employment.

→ Man-power planning

In order to better harness the potential of existing employees, AASL attempts to maintain the same cadre without additional cadre positions in the next few years.

Window of Opportunities for Employees

The second terminal will create an exciting window of opportunities for existing employees as well as for candidates who are looking for a carrier in aviation, under the direct employment of AASL as well as under other stakeholders, as multiplying the capacity means multiplying many front-office and back-office functions in entire aviation value chain.

Risk Management

Risk management is critical for a company in defining its objectives for the future. Effective risk management is an essential component of our decision-making process to achieve a strong Sri Lankan experience among international passengers on a daily basis.

We are responsible for managing and developing five international airports: BIA, MRIA, JIA, CIAR and BTIA as the statutory service provider for the Government of Sri Lanka (GoSL). Accordingly, AASL is exposed to a variety of risks that threaten not only the organization's operational and financial performance, but also the country's image.

AASL's Risk Management approach was created to improve the organization's ability to achieve its corporate objectives. The Board is responsible for the success of AASL's Risk Management process as this procedure demonstrates its relevance as one of the major pillars of the corporate governance framework.

AASL aimed at achieving the followings through its Risk Management:

- Recognize and assess a variety of risks.
- Minimize and/or wipe out dangerous threats while taking advantage of new opportunities in the corporate environment.
- Supports efficient utilization of Company's resources.
- Successfully manage the risk communication within the company.
- Do justice to the real owners of AASL, the general public by contributing to the company's survival and long-term growth.

Main challenges in Aviation Operations

→ High Maintenance Cost

Having a large fixed cost in maintaining the airport infrastructure compared to low percentage of variable costs in the cost structure.

→ Limited Business Diversification

The room for business diversification is quite low in aviation, compared to other industries. This puts enormous pressure on our top-line as well as the bottom-line, especially in a situation such as the COVID-19 pandemic.

→ Ensuring Facilities are Up-to-Date

Being a service driven industry, it is of utmost importance to assure a comfortable and superior guest experience for all airport users. Towards this, airport facilities and infrastructure are required to be maintained on par with that of other international airports in the region.

→ Volatility of the Tourism Industry

Aviation is heavily dependent on global economic condition as well as on tourism which is a highly fragile industry. Post-pandemic global economy is at its recovery stage which slowed the recovery of aviation sector. Priorities as well as expectations of tourists and travelers have changed since the emergence of the pandemic, and meeting those expectations have become challenging. These expectations require adjustments to the processes and procedures at the airports. High concentration on health and safety requirements compromised passenger comfort.

→ Increasing Operational Costs

Increasing fuel prices globally as well as domestically has increased the cost for airlines due to escalations in their operational costs. This adversely affects airport operations through low passenger volumes due to high ticket prices. At the same time, airlines are increasingly demanding for price concessions from airport operators.

→ Rapidly Changing Technology

Changing technology demands that airport operators include smart features in airports. This intensifies the competition among airports requiring airport operators to invest more on new technology. Contactless airport operations with no/minimum human involvement have become a tough target to achieve.

→ Environmental Impacts

Airport operations have a sizeable impact on the environment. While airlines are responsible for carbon emission of aircraft, airports also have a role to play in this regard. Airports should increasingly concentrate on optimizing the air route structure to assure least fuel consumption with minimum carbon footprint in mind.

Sound pollution is another challenge that airport operators have to face. Airport operations generate loud noises disturbing people and animals living in the surrounding environment. Therefore, operations are scheduled to ensure minimum disturbance to the communities and species in the environment.

Airports generate a considerable quantity of waste that needs to be disposed properly. Ensuring this is done in keeping with environment guidelines and best practices is of great value to AASL. We have received certifications from the Central Environment Authority and other regulatory institutions confirming our environmentally friendly waste management practices.

Long-term Challenges and Mitigation Measures

Adapting to evolving technology, ensuring sustainability, capacity management and attracting talented work force are challenges that we foresee as challenges that AASL would face in the long term.

Technological advancement is a continuous process that must keep up with evolving technology advancements. Use of contactless passenger processing by using biometric recognition systems, self-check-in and bag drops, self-boarding gates and mobile payments are expected to increase in future. Therefore, it is vital to make these facilities available at our airports too. These projects are to be implemented within the next five years. However, they do pose cyber-security risks which needs to be addressed.

The world is becoming more and more environmentally conscious. This demands airports to achieve carbon neutrality in future. Accordingly, we would be required to define carbon emission reduction targets for next few decades. It is identified as one of the Sustainable Development Goals (SDG) in AASL corporate targets. Strategies are developed to minimize carbon emission

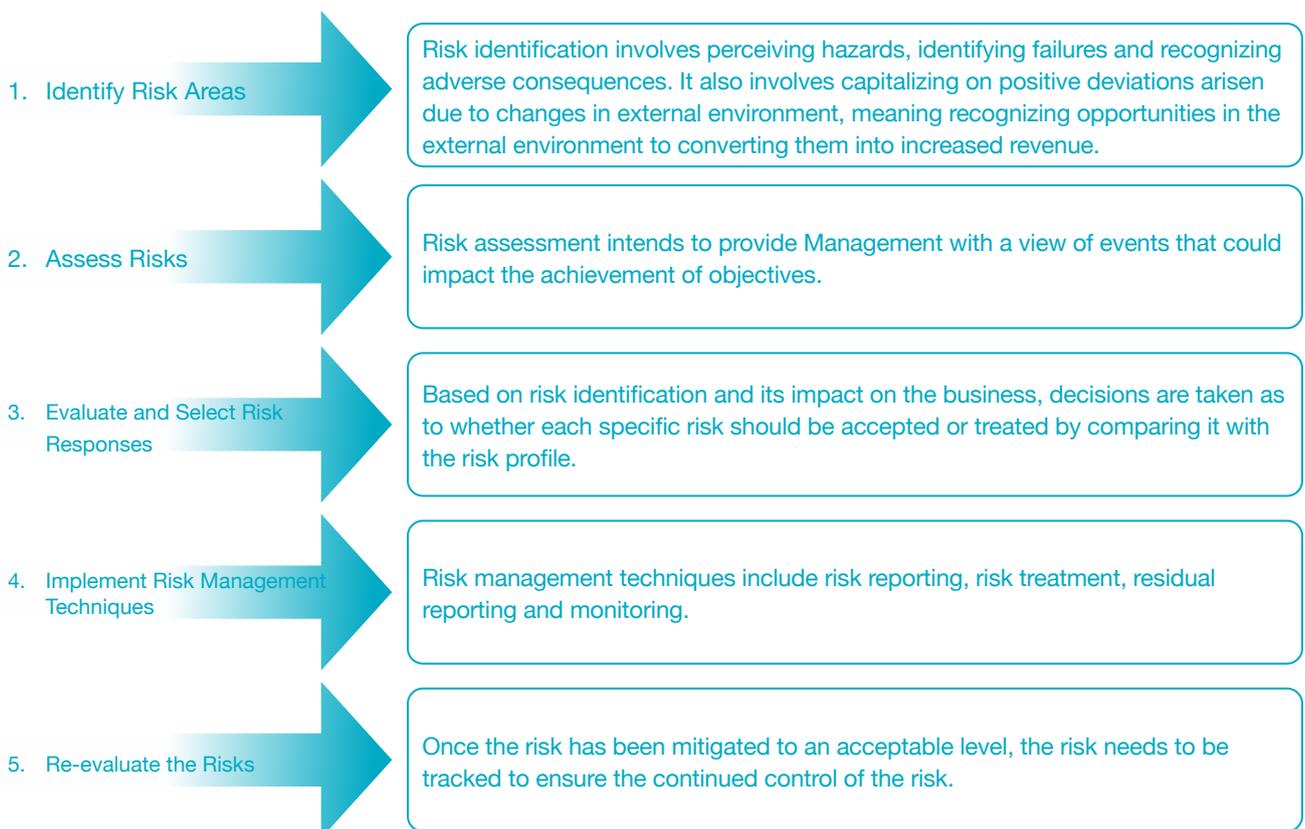
on ground activities as well as within the Colombo FIR through the air routes restructuring.

The Asian region accounts for one third of the world’s passenger kilometers. This volume is expected to grow once the industry recovers from the pandemic’s impacts. Being within the high-volume region, Sri Lanka would also benefit from the increase in passenger traffic. Apart from process changes and technology advancements, dealing with post-pandemic customer needs, providing personalized services and identifying the customer preferences based on demographic factors will be a huge challenge in the long run. Negotiations are underway with relevant stakeholders to develop a single common database as a first step towards introducing a CRM (Customer Relationship Management) process.

AASL is also in the process of introducing a fully-fledged ERP system within AASL to improve efficiency levels of internal business processes which would lead to increase the satisfaction levels of all stakeholders.

In addition, during the development of AASL corporate plans, projects are prioritized taking into consideration the above challenges.

AASL Risk Management Framework



Risk Management

Implementation of the Risk Management Framework

Having recognized the importance of appropriate risk management, the overall risk management responsibility is placed with the strategic management division of AASL and therefore responsible for taking steps to introduce and maintain suitable risk management mechanism within the company to ensure that no hindrance is met in achieving strategic objectives of the company. The external and internal business environment is assessed using tools such as SWOT, PESTEEL and Porter's 5 forces in identifying the risk factors in achieving objectives. This is conducted in consultation with all divisions, all levels by adopting both top-down and bottom-up approaches with the motto of "Risk Management is everyone's responsibility".

Risk Management Committee (RMC)

At AASL, a separate board sub-committee called the Risk Management Committee (RMC) has been formed to oversee the risk management function.

The Risk Register is used predominantly in identifying the probability and severity of the risks. It is updated by every division along with proposed mitigation techniques and centrally monitored by the Strategic Management division. Any untreated risk and associated issues are escalated to the RMC.

RMC meetings are held with all divisions at AASL monthly to discuss operational, tactical and strategic risks which are critical and find the best suited mitigation techniques. At these meetings, a few selected areas of risks are included in the agenda so that risks of those areas could be discussed effectively. However, participants are always encouraged to discuss timely, crucial risks without being restricted to the agenda. Certain strategic risks, human resource management risks and technology related risks are evaluated through other board sub-committees too. This helps to strengthen the mitigation technique by looking at the cause and the impact from every possible aspect.

Further, aerodrome safety matters are looked after by Safety Management Unit of the company. This is carried out in accordance with the guidelines (Annex 19) issued by International Civil Aviation Organization. The other mechanisms available are the Facilitation Committee Meetings which happens on a quarterly basis with the

participation of all stakeholders housed at the airports. During these, Airlines Operators Committee (AOC) discuss issues faced in operations, Aviation Security Committee discusses security threats and potential risks faced by the airlines and passengers, etc. These mechanisms deal with operational risk aspects of the organization which are addressed through interaction with external stakeholders.

Risk Forecasting

Risk forecasting plays a significant role in identifying the potential risks. During the last few years, AASL mostly relied on the forecast/region or country outlook for aviation sector published by aviation professional bodies such as Airport Council International (ACI) and Internal Air Transport Association in view of dealing with the uncertainties of demand in aviation and tourism. The time period of risk forecasting of the company depends on the time horizon of the corporate plan which is prepared for a period of 3 years.

Employee participation across all levels is obtained at this stage through bottom-up and top-down communication methods. Risk identification is regarded as routine in the strategic planning process and employee contribution is encouraged.

AASL identifies risks which includes the followings:

- Strategic and Operational risk
- Human Resource risk
- Safety, Security & Health risk
- Financial risks
- Reputation risk
- Legal risk

Risk Assessment

Risks are evaluated considering two factors;

- 1) The possibility (or probability) of risks materializing
- 2) Severity of the impact of those risks

Both the above are given scores ranging from 1 to 5 where 1 indicates least possibility or severity as appropriate while 5 indicating the highest. Then, the score assigned for the possibility and the impact are multiplied by each other to obtain the product. These values range from 1 – 25 and they are placed in the right zones of the risk assessment matrix. The values towards 25 indicates crucial risks requiring urgent attention and more robust mechanism to mitigate them.

Risk Assessment Matrix

Risk Matrix		IMPACT					
		Insignificant	Minor	Medium	High	Extreme	
		1	2	3	4	5	
PROBABILITY	Rare	1	1	2	3	4	5
	Unlikely	2	2	4	6	8	10
	Possible	3	3	6	9	12	15
	Likely	4	4	8	12	16	20
	Almost Certain	5	5	10	15	20	25

Assessing the probability and impact is mostly a qualitative judgement where the respective divisions with professional expertise is involved in. On the other hand, there are certain risks such as financial risks, of which probability and / or impact is/are assessed quantitatively considering past patterns of similar occurrences and computing the impact in monetary terms.

We have defined certain KPIs according to some risks identified and captured. In addition to measuring financial performance, we measure performance of the company in relation to customer satisfaction, employee satisfaction, aircraft related accidents and incidents. This helped us identify possible risks in these areas and analyze them for appropriate actions to overcome them.

Risk	Risk Description	Mitigants
Strategic & operational risks	Threats in the external business environments and internal weaknesses may prevent the Company achieving its goals. On the other hand, opportunities could emerge in the business environment which the company should capitalize on.	Internal and external environment of the business is scanned and position appraisal is carried out on annual basis when the corporate plan is prepared.
Human resource risks	Employee Safety and Health owing to the pandemic as well as the engagement and motivation were the top most challenges in HR during the year under review.	All safety materials, PPE was provided by understanding the nature of the job. The quarantine facilities, fully vaccination programs were arranged for all AASL employees during this period. The employees' special contribution were appreciated by way of commendation letters. A quiz session named "Brain Champs" and global aviation news bulletin called "Aviation Market watch" were running on full swing to keep the employees more current. The agile working mechanisms were introduced and trained.

Risk Management

Risk	Risk Description	Mitigants
Safety, security & health risks	Being a highly regulated industry, basically airport operations are carried out in compliance with local and international regulations. There are guidelines covering all key aspects of airport operations such as aerodrome operations, aviation security, aeronautical information services, safety management, transportation of dangerous goods and air traffic service etc.	<p>Risks in airport operations are largely mitigated by complying with the relevant guidelines issued by local and international guidelines (CAASL and ICAO).</p> <p>All the projects are carried out in adherence with the safety policies and procedures and the All contractors and external service providers who engage in the projects also should follow them.</p>
Financial Risks	Exchange risk Being an international operation, AASL is exposed to foreign exchange risks. The company has foreign currency denominated borrowings where rupees depreciation poses a threat to us.	Maintaining foreign currency denominated earnings and investments help us mitigate translation and transaction risks at large.
	Interest rate risk AASL is exposed to risk of change in interest rates.	The company's investment portfolio is comprised of both short and long-term investments where any change in interest rates could be adopted to.
	Commodity prices risk Most of the purchases were procured according to government procurement guidelines thus, cost is one of the key aspects in selecting suppliers.	Suppliers are contracted for reasonable duration as such the price is guaranteed.
	Credit risk The company offers specific credit period for airlines while others are on cash basis.	<p>Airlines were contracted to pay us within the stipulated credit period by imposing default interest on the invoice amounts, if delayed.</p> <p>Rentals and concessions payments of shop operators happen as per the contract agreements with them.</p> <p>Relevant clauses are included in the contract agreements to minimize default risk.</p>
	Liquidity and cash flow risk This refers to the ability to the risk of defaulting debt obligation and risk of not having sufficient cash for daily operations.	<p>AASL has accumulated its earning over the years and significant portion of it has been invested in liquid assets. In a situation where the company could not generate sufficient cash by its normal business operations, the difference could be financed with these liquid assets.</p> <p>On the other hand, these retained earnings would improve lenders confidence in case when company applies for external financing.</p>

Risk	Risk Description	Mitigants
Reputation Risk	We consider marketing by word of mouth/viral marketing as the most powerful tool required in managing the reputation	<p>Through the CMS (Complaint Management System), we attempt to understand the areas and the root causes of customer dissatisfaction and corrective actions are taken for the complaints received.</p> <p>All official social media pages were actively monitored, updated and responded to avoid spreading of false / fake news and information about the company.</p> <p>Especially, during the year under review, when adjusting the services after the pandemic to address the health and safety requirements in the passenger processing, AASL took utmost care in filling whatever the gaps in the services by providing both physical and human resources without even demarcating who should be responsible for what. This led to some trade-off situations in our capacity to undertake the service delivery, but still the client satisfaction was assured.</p>
Legal Risks	Legal risk refers to the possibility of financial or reputation damages to the Company due to operating with reckless indifference to law, misunderstanding law and how it applies	<p>Legal division is involved in drafting and scrutinizing all legal correspondence of the company (i.e., bidding documents and agreements etc.) that the company entered into with contractors, suppliers and various types of service providers. This helps the company to have robust agreements with other stakeholders which would ultimately mitigate not only legal risk but also other risks such as credit risks, HR risks, operational and strategic risks etc.</p> <p>Legal division advised the top management on non-routine compliance requirement to avoid risk of legal action being taken against the company.</p>

Risk Management

Contribution of Risk Management to AASL Success

The adopted process in risk management explained above have provided the following benefits:

- Time taken for mitigation actions was minimized.
- The whole company was engaged in risk identification and adopting mitigation steps.
- Company was aware of any untreated risks at any given time due to the Risk Register maintenance.

One of the KPIs of managing operational risks is safety incidents and accidents reported on ground and/or on air. AASL has maintained nearly zero incidents and accidents during the last few years. As a result, there were no significant safety audit findings / queries. This reflected the effectiveness of our operational risk management mechanism.

The number of complaints was another KPI, where we analyze the service delivery standard in operations. There was a clear drop in number of complaints received from all sources during the period, even after factoring in low passenger volumes in the post-COVID period. Causes of both incidents/accidents and complaints were analyzed for improvements to operational targets of the organization. Customer satisfaction and safety which were the two CSFs of AASL had been positively impacted through this risk management process.

Future of Aviation Sector

The pre-covid growth rates projections made by the industry has not realized during the last two years due to the Covid-19 pandemic conditions. However, travelers worldwide will commence flying to catch up on the travels that had to forgo during lockdowns which is referred as 'revenge tourism' is expected by bringing back the fortunes to the global airport industry.

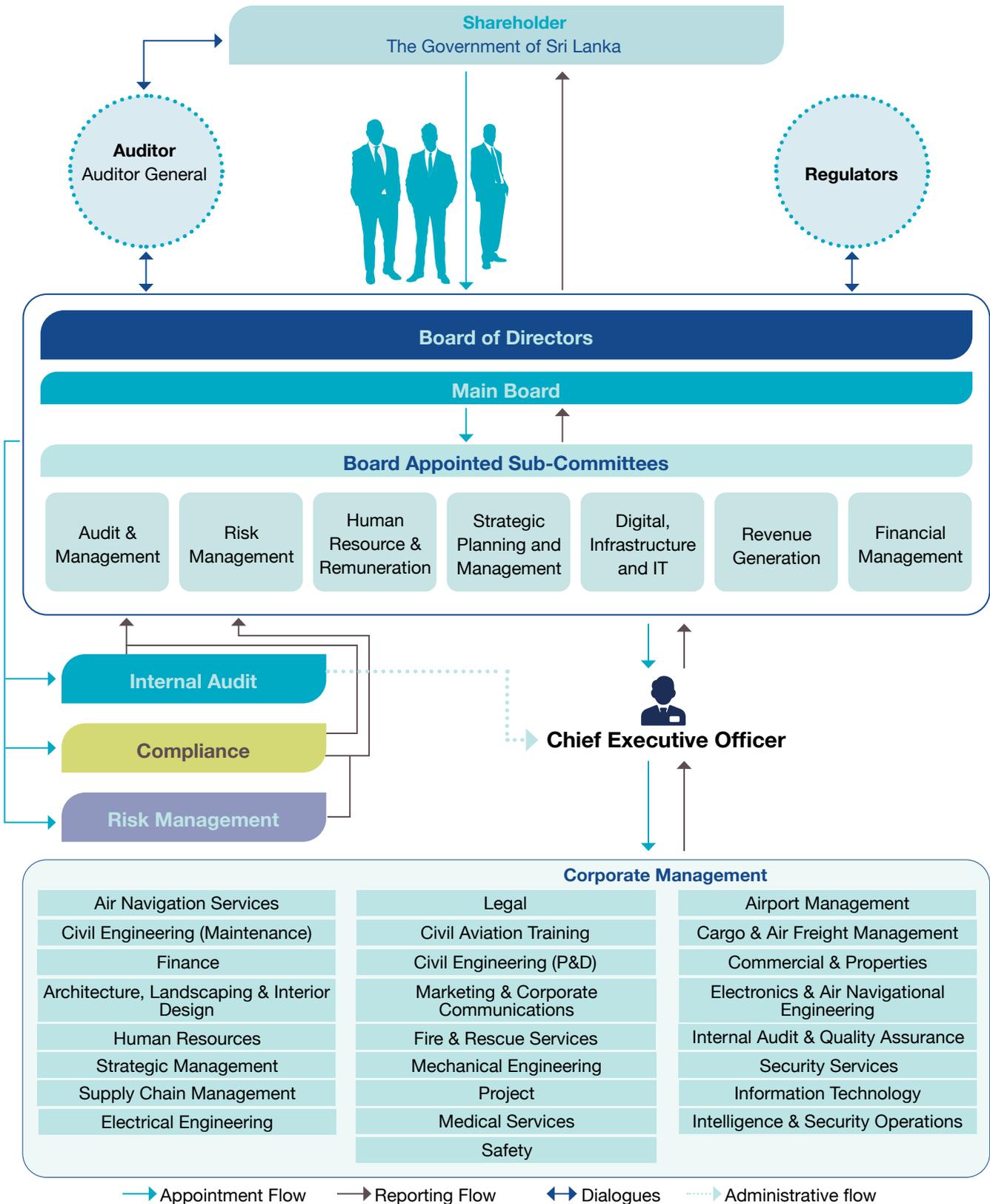
The Asia Pacific region to which Sri Lanka belongs is predicted to recover faster in the post-pandemic. If the country's tourist offer is attractive and if overall product is considered as 'value for money', Sri Lanka could possibly recover faster than expected by the aviation bodies for the region and surpassing the counter-rivals.

Future of Corporate Risk Management

With a view to further strengthening risk management mechanisms and instilling a robust risk culture within AASL, we are planning to obtain a certificate of compliance for ISO 31000: Risk Management. This has already been initiated with the assistance of a volunteer external consultant and is expected to obtain compliance certificate within next 2 – 3 years.

Corporate Governance

Governance Structure of Airport & Aviation Services (Sri Lanka) (Private) Limited



* At AASL, the Chairman plays a dual role as Chairman and CEO.

Corporate Governance

1. Overview

For the past 38 years, AASL has dedicated itself to ensure a strong governance structure that aids proper management of day-to-day business tasks as well as the company's long-term performance, whilst providing the direction and governance required to steer the company's business operations. An effective governance framework is critical in assisting the leadership in better understanding their oversight responsibilities. The framework includes features that help with good governance as well as strategies for dealing with governance risks. A good corporate governance framework offers a solid framework for assessing how management responsibilities align with the board's oversight responsibilities towards creating value for stakeholders.

The corporate governance framework plays a key role in mitigating the Agency Problem, which arises from potential conflicts of interest. Excellent corporate governance is a critical component for a company's integrity, accountability and efficiency.

AASL has pledged to establish and implement effective governance structures and industry best practices to protect and grow shareholder value. AASL acknowledges that strong Corporate Governance is a continuous process, and it reaffirms the commitment to uphold the highest standards of corporate governance in the best interests of all stakeholders within the Corporate Governance Framework. The AASL Corporate Governance Framework is based on the basic values of fairness, accountability, responsibility, participation, and transparency, all of which are vital for the development, enhancement, and maintenance of a sustainable business model.

Fairness

- Protect shareholders' rights.
- Treat all shareholders including minorities, equitably.
- Provide effective redress for violations.

Accountability

- Ensure that Management is accountable to the Board.
- Ensure that the Board is accountable to shareholders.

Responsibility

- Must strive to channel the self-interests of Managers, Directors, and the Advisors upon whom they rely, into alignment with corporate, shareholder, and public interests.

Participation

- Directors need to be more actively involved in the strategic decision-making process of the corporation.
- Employee participation

Transparency

- Ensure timely, accurate disclosure on all material matters, including the financial situation, performance, ownership, and corporate governance.

The Board of Directors is responsible to the shareholders and other stakeholders for the sustainable delivery of the goals, operational performance, and financial performance through the efficient use of resources and maintain ethical standards. This report demonstrates in detail, how AASL has embraced and complied with, all the mandatory provisions of the Companies Act No. 7 of 2007, Code of Best Practice on Corporate Governance 2017 of the Institute of Chartered Accountants of Sri Lanka, and the Public Enterprises Guidelines for Good Governance issued by the Department of Public Enterprises, Ministry of Finance under the category "A" Commercial Public Enterprises.

2. The Board

The Board's key responsibilities include:

- Providing direction and guidance to the company in the formulation of the sustainable, high-level, medium, and long-term strategies which are aimed at promoting the long-term success of the company.
- Ensuring operations are carried within the scope of the Enterprise Risk Management Framework.
- Monitoring systems of governance and compliance.

In carrying out its responsibilities, the Board promotes a culture of openness, productive dialogue and constructive dissent, ensuring an environment that facilitates employee empowerment and engagement and creates value to all stakeholders. The Board encourages and sets the tone at the top by promoting professional standards and corporate values that cascade down to Senior Management and other employees of the company.

3. Board Meetings and Attendance

The Board meetings are scheduled by providing adequate notice to enable the Directors and Management to prepare all the key and strategic information required for deliberation in the meetings. The Directors are provided with the Agenda and Board papers at least seven days before each meeting giving them adequate time to study the contents.

A professional and methodical approach is practiced in conducting the meetings with pre-allocation of time for each agenda item to ensure all aspects are duly discussed and addressed to arrive at the appropriate decision. Heads of the Divisions attend the Board meetings by invitation as and when required to present additional information and provide further clarity to the Board.

Thirteen Board meetings were convened during the year and the attendance of the Board members are as follows:

Name of the Board Member	Position	Attendance
Maj.Gen. (Rtd.) G A Chandrasiri RWP USP VSV ndc psc	Chairman	13/13
Mr. R Sooriyaarachchi	Vice-Chairman	13/13
Mr. A S C Warushahennadige	Non- Executive Director	13/13
Mr. S N Sumanasekara	Non- Executive Director	13/13
Eng. S M A U S Manchanayake	Non- Executive Director	13/13
Ms. D A De Livera	Non- Executive Director	13/13
Mr. C P Vitharena	Non- Executive Director	02/13
Mr. R A P Wijerathnasekara	Non- Executive Director	13/13
Mr. D A P Weeratna PC	Non- Executive Director	13/13
Mr. Gihan Rashantha	Non- Executive Director	12/13
Mr. G A Ajith Priyantha	Non- Executive Director/Treasury Representative	08/13
Mr. A H S Gunawardhana	The observer from State Ministry of Aviation & Export Zones Development	13/13
Resigned		
Mr. R M A Ratnayake	Non- Executive Director/Treasury Representative	02/13

4. Our Approach and Commitment

AASL is a fully Government owned company and its Board is responsible to the Government for the strategic guidance and oversight of the company through good governance.

The Board is responsible for taking appropriate business decisions within a framework of effective accountability and transparency in the process of meeting our core objective of maximizing value for our stakeholders.

Roles and Responsibilities of the Board

Organizational Stewardship

Strategy and Planning, Risk, Leadership, Corporate Performance, Ethics, Compliance, Stakeholder Engagements, Resources

Dynamics

Values, Decision Making, Behaviour, Employee Talents

Framework

Preferences, Contract Rules, Committees, Processes

Environment

Economy, Regulations, Business Practices, Currency Fluctuations, Legal environment

Corporate Governance

Board Stewardship

Recruitment, Orientation, Education, Evaluation, Succession Planning

The Company is guided by the Corporate Governance Regulatory Framework recommended by the Department of Public Enterprises and the Ministry of Finance. This Governance Framework is underpinned by five core principles.

- a) Leadership and Direction
- b) Transparency and Integrity
- c) Accountability to the Government as its key shareholder
- d) Recognizing the legitimate interests of stakeholders
- e) Timely and balanced disclosure principle

5. Leadership and Direction

The company's business and operations are managed under the supervision of the Board, which consists of members with experience and knowledge in the areas of business management and finance governance appointed by the Minister of Tourism and Aviation in line with reference to the Articles of Association. The Chairman, who leads the Corporate Governance policies of the organization and is responsible for providing leadership to the Board, is appointed by the Minister, whilst inculcating good governance and ensuring effectiveness. The Chairman also ensures constructive working relations are maintained between the Executive and Non-Executive members of the Board. The Chairman with the assistance of the Board Secretary ensures that:

- a) Board procedures are followed
- b) Information is disseminated promptly to the Board

The Board of Directors executes a statutory responsibility in the stewardship of the company on behalf of the Government and its stakeholders. Their principal functions are:

- a) To lead the company towards achieving its vision.
- b) To oversee the management, operations, and performance of the company as a whole.

The Board comprises of 11 Directors, of which 10 are Non-Executive Directors and 01 is an Executive Director and the majority of the Board comprises Non-Executive Directors of high repute as per requirements of the Code. This Board composition reflects the independence of Management, in both fact and appearance. That is not only on Directors' individual relationships, personal, employment or business but also on the Board's overall

attitude towards Management. Providing objective independent judgment is at the core of the Board's oversight role.

All Directors have independent and joint access in respect of both internal and external information of the company. The Company Secretary ensures that Board procedures are followed and guidance on legal requirements are provided regarding Board proceedings.

In addition, the Secretary circulates the notices of Board Meetings, Minutes of meetings, and Board papers together with other relevant documents with adequate information to enable the Board to make informed decisions. Follow-up on actions on Board decisions are also executed by the Secretary.

6. Matters Reserved for The Leadership of The Board Include:

The Company has in place a well-structured Corporate Governance Framework which has been adopted across all business units and is integral in maintaining and enhancing sustainable shareholder value.

- a) Providing the vision and the direction for the company based on its specific mission built up within the scope of the provisions in Civil Aviation Act No 14 of 2010 and how best it could serve the interests of the Government and other stakeholders.
- b) Ensuring that legal requirements are fulfilled and the company operates in accordance with the provisions of the Companies Act No. 7 of 2007 and Articles of Association.
- c) Framing different types of policies including Risk Management in order to achieve optimum returns and benefits to the Government and other key stakeholders.
- d) Reviewing public policy objectives periodically and providing strategic direction to formulate long-term goals and objectives for future growth.
- e) Guaranteeing adequate accountability by delegating responsibility.

7. Matters Reserved for The Board in This Capacity Include:

The main purposes of the Board, in brief, are that directly comes under their purview are:

- a) Assess the overall direction and implement the strategy of the business.
- b) Fiduciary duty towards protecting stakeholder interests.

- c) Monitor and evaluate the performance of the Senior Management through Management Information reports ensuring that the company is on track in its operations.
- d) Ensure effectiveness of governance practices.
- e) Implement a framework for risk assessment and management, including internal controls among others.
- f) Ensure that Board policies are executed in the same spirit as it was framed and in the best interests of the institution and the public at large.
- g) Take remedial action without delays to ensure that goals are met if results are not in line with desired expectations.
- h) Appoint competent personnel as Managers and ensuring that there is adequate delegation of authority amongst the Senior Management.
- i) Attend Committee on Public Enterprises (COPE) meetings and Parliamentary Consultative Committee (PCC) meetings or delegating the authority for the same towards Senior Management when and where necessary.

8. The Role of The Audit and Management Committee (AMC) In Corporate Governance Aspects

8.1 Audit Management Committee

The Audit and Management Committee (AMC) was formed in terms of PED/12 Para 7:4:1 to assist the Governing Council in the supervision of the affairs of AASL and to ensure the integrity of the company financial statements and the procedures of the AASL.

The role of the Audit and Management Committee is to assist the Board in fulfilling its oversight responsibilities in relation to the integrity of the financial statements of the company, the internal control and risk management systems of the company and its compliance with legal and regulatory requirements, the External Auditors' performance, qualifications and independence and the adequacy and performance of the Internal Audit function, undertaken by the company.

The scope of functions and responsibilities are adequately set out in the TOR of the committee which has been approved by the Board and is reviewed annually. The Audit and Management Committee has reviewed the financial statements to ensure their conformity and compliance to the Government regulations covering accounting and financial activities, Administrative Regulations (AR), Financial Regulations (FR) and AASL regulations.

The external and internal audit functions play a vital role in contributing to the integrity of the audited financial

information. Accordingly, they must be overseen and evaluated effectively by the Audit Committee at least quarterly. The AASL's line Ministry, the Ministry of Tourism & Aviation and the General Treasury need the assurance that the AASL's audit functions are effective and have been robustly evaluated. The scope of the evaluations should encompass all relevant issues including:

- ➔ Quality of work undertaken during the evaluation period.
- ➔ Calibre and experience of audit personnel.
- ➔ The appropriateness of its reporting line in respect of Government and Internal Audit.

The Audit and Management Committee had regularly reviewed the existing systems and procedures and on observing any deviations had submitted suggestions to improve the existing systems to the Board of Directors for its approval from time to time. The Committee also had reviewed the queries raised by the Auditor-General and Internal Auditors and the replies given by the relevant divisions to ensure corrective measures taken are adequate and effective to eliminate the associated risks.

8.2 Transparency and Integrity

Transparency, in a business or governance context, is honesty and openness. Transparency and accountability are generally considered the two main pillars of good corporate governance. Integrity is doing the right thing even when no one else is around. It is the ability to act with honesty and be consistent in whatever it is a person is doing based on moral values.

The Audit and Management Committee has regularly monitored and reviewed the organizational culture and practices to identify and safeguard the integrity of the company's financial reporting which demands enhanced governance, accountability, and transparency. The entire procurement process is one of the important activities of the company based on the guidelines issued by the Department of Public Finance of the Treasury and provides a fully transparent procedure when acquiring goods and services.

8.3 Internal Audit

AMC is assisted by the AASL Internal Audit and Quality Assurance (IA & QA) Division. The Head of IA & QA acts as a Convener to the AMC and report to the Chairman. The main focus of the IA & QA Division is to conduct an independent review on the overall prevailing system of internal control by evaluating the adequacy, integrity, and effectiveness of internal controls while ensuring that standards of quality for certain areas of the airport

Corporate Governance

services are satisfactorily met and make appropriate recommendation to the Management to strengthen the internal controls. The Internal Audit regularly reported to the Chairman on the adequacy and effectiveness of internal controls and compliance with laws and regulations and established policies and procedures of the company. The Internal Audit includes:

- a) Review of the prevailing system of internal control.
- b) Ensure that major decisions undertaken by the Board of Directors are implemented effectively.
- c) Evaluating and making recommendations on risk assessment over Management decisions and activities under the purview of each division of the AASL, to the AMC, and the Chairman of AASL.
- d) Making observations on risk assessment by External Auditors in respect of systems and controls.
- e) Ad hoc and periodic Financial Reviews for Income and Expenditure and its recognition as well as reporting.
- f) Undertaking quality audits regarding selected airport facilities and airport services.
- g) Review of procurement procedures in compliance with the National Procurement Agency applicable procurement guidelines.

9. Accountability to The Government as The Key Shareholder of AASL

As a fully Government owned business undertaking, accountability to the Government is exercised through the line Ministry by AASL using the following mechanism:

9.1 Parliament

Annual Reports of the company should be tabled in Parliament within 150 days from the end of the financial year as per the Treasury Circular PE/PF 21 dated 24 May 2002 for review.

9.2 Committee on Public Enterprises (COPE)

The Parliamentary Committee on Public Enterprises (COPE) is empowered to review the performance of the company and to assess the extent to which the company achieves performance targets and fulfils social responsibilities. When summoned by the COPE, the Chairman, Directors and Senior Managers together with the Secretary to the Ministry of Tourism & Aviation, the Chief Accounting Officer should be present at the reviews, to respond to any queries and matters of concern regarding the activities of the company.

9.3 Parliamentary Sectoral Oversight Committee

As per the resolution of Parliament adopted on 19 December 2015 AASL comes under the Sectoral Oversight Committee on Transport and Communication. The main purpose of the committee is to evaluate and monitor the overall project progress, performance, and any other special matters. Sectoral Oversight Committee chaired by an opposition Member of Parliament in order to maintain the objectivity in the entire process.

9.4 Minister of Finance / General Treasury

The Minister of Finance or the General Treasury on his behalf is responsible for financial discipline in the public sector, including public enterprises. A Treasury representative is appointed to the Board to monitor performance, ensure compliance with statutes, rules and regulations, etc. and to report on any matters of concern to the Minister. Mr. G A Ajith Priyantha, the Treasury Representative, performed this function during the year under review.

The responsibility for monitoring the financial management and control of Public Enterprises lies in the hands of the Department of Public Enterprises (DPE), General Treasury.

9.5 Ministry of Transport and Civil Aviation

The Secretary of the Ministry of Tourism and Aviation and the Chief Accounting Officer is accountable to the Government for the financial administration and management of the company and in this capacity regularly reviews the following matters with the Board during the year.

- a) Corporate Plan and Budgets
- b) Physical and Financial performance of the Capital Projects undertaken in the current year
- c) Audit Deliverables including Management Letter and Financial Performance of the year as a whole
- d) Matters arising from meetings of the COPE or any other Statutory/Regulatory institution

9.6 Ministry of Tourism and Aviation

The Ministry of Tourism and Aviation was established on 10th December 2019 under the extraordinary gazette No. 2153/12. Among the main objectives of the establishment of a dedicated Ministry in charge of the tourism and aviation sectors are making available an appropriate policy and regulatory framework, ensure robust infrastructure development and aviation, promoting of destination Sri Lanka, and exercise administrative and financial overview over institutions gazette under the Ministry.

10. Recognize the Legitimate Interests of Stakeholders

Stakeholder value is enhanced when an entity treats the stakeholders well, meets the expectations in growth and has a reputation towards civic responsibility and legal compliance. Stakeholder value is known as a management method that focuses on maximizing the interests of a company's stakeholders (including shareholders, clients, workers and the community) as its prime objective. The goal of this approach is to maximize the stakeholders' value by implementing policies, which enhance cost control while raising the quality of the organization's products, improve the skills and morale of the company's employees and secure the advancement of the community from where the organization gathers resources and sustenance. In light of that, the company recognizes the legal and other obligations to all legitimate stakeholders including the Government and other affiliated constituencies who have an interest over AASL's affairs, employees, users of the airport (airlines, passengers and the business community who run their businesses inside the airport) suppliers and other service providers and the community as a whole. These obligations are best viewed as part of the paramount duty to optimize long-term stakeholder value.

It demonstrates its commitment to appropriate corporate practices, which comprise of the following areas:

- a) Due diligence by the Board and Management to the regulatory framework.
- b) Fulfilling the responsibilities of the Government, acting as the statutory service provider of airport operations.
- c) Promptly meeting obligations to creditors and financial institutions.
- d) Consistently meeting obligations in relation to fair trading and ensuring a level playing field when dealing with suppliers and other service providers.
- e) Ensuring ethical business practices affecting the community.
- f) Carrying out all operations and activities as stipulated by law and following best practices as appropriate.
- g) Non-discriminatory treatment of all airport users.
- h) Treat employees fairly, respectfully, and equitably.

11. Timely and Balanced Disclosures

Providing timely, accurate information with required coverage of depth and breadth for prudent decision making is the crust of our information disclosures internally as well as externally. The company's established policies and procedures ensure compliance with the disclosure requirements of all laws and regulations, including the circulars stipulated in the Department of Public Enterprises of the General Treasury and Sri Lanka Financial Reporting Standards (SLFRSs/LKASs).

AASL maintains effective and candid communication with the stakeholders to help stockholders understand the business, risk profile, financial condition, operating performance and trends of the corporation. Many periodic and ad hoc reports and analysed information are provided as a practice and on demand. The employees are updated with the true position of corporate operations and financial performance. The company Intranet serves the purpose of information dissemination enhancement to employees. AASL contributes to public policy dialogue whenever there is a development, enactment and revision of the laws and regulations that impact our business and affect the community in which we operate.

12. The Company Secretary

The Company Secretary plays a vital role in ensuring that the Board procedures are followed and regularly reviewed. In addition to maintaining Board minutes and Board records, the Board Secretary provides support in ensuring that the Board receives timely and accurate information in addition to advice relating to corporate governance matters, Board procedures and applicable rules and regulations during the year. All concerns raised and wished to be recorded have been documented in sufficient detail by the Secretary.

The Company Secretary is primarily responsible to ensure compliance with applicable statutory, new regulations and is the interface between the Management and the regulatory authorities for governance matters.



GIVENCHY
PARIS

PHILIPP PLEIN
1970

PHILIPP PLEIN
ANNIVERSARY EDITION



FINANCIAL REPORTS

81	Report of the Auditor General on the Financial Statements
86	Statement of Comprehensive Income
87	Statement of Financial Position
88	Statement of Changes in Equity
89	Statement of Cash Flows
90	Notes to the Financial Statements

Report of the Auditor General on the Financial Statements



ජාතික විගණන කාර්යාලය தேசிய கணக்காய்வு அலுவலகம் NATIONAL AUDIT OFFICE



මගේ අංකය
எனது இல. }
My No. }

AAV/A/AASL/01/21/15

ඔබේ අංකය
உமது இல. }
Your No. }

දිනය
திகதி }
Date }

08 June 2022

Chairman
Airport and Aviation Services (Sri Lanka) (Private) Limited

Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the Airport and Aviation Services (Sri Lanka) (Private) Limited for the year ended 31 December 2021 in terms of Section 12 of the National Audit Act, No. 19 of 2018.

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Airport and Aviation Services (Sri Lanka) (Private) Limited (“Company”) for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Emphasis of Matter

I draw attention to Note 2.1.1 to the financial statements which explains the basis for amalgamating the financial statements of the Company with the Government Grant for Capital Expenditure (Voted Fund) and the Retained Revenue Fund. Based on the Cabinet decision dated 17 August 2005, the Secretary to the Treasury has directed the Company on 09 February 2006 by his letter No.PE/GOCO/1/1 to value the land and building of airport presently owned by the Government and other movable and immovable assets held by the Company and taking over the liabilities relating to Airport Development then serviced by the Government of Sri Lanka and issue of shares to the Government of Sri Lanka for the net assets value.

Further, on the request of the Company on the implementation of above cabinet decision, Attorney General had advised to take a fresh Cabinet approval by his letter dated 08 February 2010, as it involves inter alia, transfer of lands and buildings of the airport(s) and all other movable and immovable assets presently owned by the Civil Aviation Authority and the Government of Sri Lanka respectively. However, no action had been taken by the Company to obtain a fresh Cabinet decision up to date.

Moreover, by the gazette notification of Minister of Transport and Civil Aviation dated 21 December 2017 under the Civil Aviation Authority Act No.34 of 2002, the Minister have vested and transferred Katunayake Airport, Ratmalana Airport, Land, Buildings and structures of Civil Aviation Training Centre at Rathmalana, The Aeronautical Communication Transmission Station at Attidiya, Radio Navigational Aids at Gampaha and Pamunugama, Radar Station at

Report of the Auditor General on the Financial Statements



Pidurutalagala, Holiday Bungalow at Nuwara Eliya and Anuradhapura Land of 0.125 hectares to Civil Aviation Authority of Sri Lanka. Therefore, the ownership of lands and buildings used by the Company was doubtful in audit. However, only buildings of the Bandaranaike International Airport had been re-valued during the year under review and no action had been taken to complete the valuation and issue shares to Government of Sri Lanka to date.

My opinion is not modified in respect of this matter.

1.4 Other information included in the Company's 2021 Annual Report.

The other information comprises the information included in the Company's 2021 Annual Report but does not include the financial statements and my auditor's report thereon, which I have obtained prior to the date of this auditor's report. Management is responsible for the other information.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated.

If based on the work I have performed on the other information that I have obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

1.5 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Company.

1.6 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- ➔ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ➔ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- ➔ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- ➔ Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ➔ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Report on Other Legal and Regulatory Requirements

2.1 National Audit Act, No. 19 of 2018 and Companies Act, No. 7 of 2007 include specific provisions for following requirements.

- 2.1.1 I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company as per the requirement of section 163 (2) (d) of the Companies Act, No. 7 of 2007 and section 12 (a) of the National Audit Act, No. 19 of 2018.
- 2.1.2 The financial statements of the Company comply with the requirement of section 151 of the Companies Act, No. 07 of 2007.
- 2.1.3 The financial statements presented is consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- 2.1.4 The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

Report of the Auditor General on the Financial Statements



2.2 Based on the procedures performed and evidence obtained was limited to matters that are material, nothing has come to my attention;

- 2.2.1 to state that any member of the governing body of the Company has any direct or indirect interest in any contract entered into by the Company which are out of the normal cause of business as per the requirement of section 12 (d) of the National Audit Act, No. 19 of 2018.
- 2.2.2 to state that the Company has not complied with any applicable written law, general and special directions issued by the governing body of the Company as per the requirement of section 12 (f) of the National Audit Act, No. 19 of 2018 except for ;

Reference to law/ direction	Description
Section 14 of the Civil Aviation Act, No.14 of 2010	A Master Plan on establishment or expansion of aerodromes had not been prepared by the Company and had not obtained the approval from Civil Aviation Authority of Sri Lanka up to 31 December 2021.

- 2.2.3 to state that the Company has not performed according to its powers, functions and duties as per the requirement of section 12 (g) of the National Audit Act, No. 19 of 2018
- 2.2.4 to state that the resources of the Company had not been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement of section 12 (h) of the National Audit Act, No. 19 of 2018

2.5 Other Matters

- (a) The Company had entered into two agreements with Japan International Cooperation Agency for funding of 74,397 Japanese Yen million for Phase II Stage 02 of Bandaranaike International Airport Development Project on dates of 28 March 2012 and 24 March 2016. However, the contract value equivalent to the 82 per cent of the funding value had been awarded on 04 March 2020 with a huge delay. Further, the Company had paid a sum of Rs.359.5 million equivalent to 250.5 Japanese Yen million from 20 April 2013 to 20 April 2022 including a sum of Rs.31.5 million equivalent to 14.8 Japanese Yen million for the year under review to the Japan International Cooperation Agency as commitment fee due to under-utilization of funds. Changing the roof design of new terminal building had been caused for the delaying of the project.
- (b) No action had been taken to recover the outstanding debtor balance over 365 days from Sri Lankan Airlines for Landing & Parking charges and Aerobridge Charges, Rental & other charges amounting to Rs.1,413.5 million as at the end of year under review and it was 35 per cent from the total trade debtors over 365 days of AASL.
- (c) It was observed that the operating cost of the MRIA in the year 2021 was Rs.2.02 billion and it was 21 times higher than the operating Income. Net Loss after tax for the year under review was Rs.4.44 billion and Cumulative net losses after tax from year 2017 to 2021 were Rs.20.59 billion. Although the expected annual passenger capacity of the Mattala Airport was around one million, the total number of passengers during the last five years was only 91,747 and total flight movements of last five years were 2,396. Accordingly, it was observed that a total cost of Rs.36,564 million equivalent to USD 247.7 million which was incurred for the construction of this airport was not effectively used. Further, a sum of Rs.2,610 million had been paid by AASL as the annual loan instalment including interest for the debt of USD 190 million obtained for the above construction.



- (d) Colombo International Airport, Rathmalana had incurred continuous losses and cumulative loss from 2017 to 2021 was amounting to Rs.1,693.66 million including the loss for the year under review of Rs.461.08 million. In the year 2020 and 2021 aircrafts movements were only 13 per year and the passenger movements were around 60 and 28 respectively.
- (e) Jaffna International Airport had inaugurated on 17 October 2019. There were only 142 aircrafts movements and 4,441 number of passenger movements recorded from inception and continuous losses incurred for last 03 consecutive years. No revenue had been earned in the year 2021 and an expenditure of Rs.40.74 million had been incurred.
- (f) Batticaloa International Airport had reopened to civilian operation on 25 March 2018. No revenue was earned and only Rs.74.64 million had been incurred as expenditure for last four years. The Civil Aviation Authority had spent Rs.38.4 million on the Construction of a new passenger terminal building and Rs.482.78 million on the construction of Runway and also the State Ministry of Aviation and Export Zones Development had incurred a sum of Rs.53.61 million for final payments of construction of Runway.

As per the comments received from the Chairman of the Company, government of Sri Lanka has taken a decision for the operation of Jaffna International Airport, Batticaloa International Airport, Mattala Rajapaksha International Airport and upgrading the operations of Colombo International Airport (Rathmalana) as international civil airports under the administration of the Company.

W.P.C. Wickramaratne
Auditor General

Statement of Comprehensive Income

(All amounts in Sri Lankan Rupees)

Year ended 31 December	Note	2021	2020
Revenue	5	7,386,170,394	7,776,338,256
Other Income	6	492,782,034	234,399,549
		7,878,952,428	8,010,737,805
Administration and Establishment Expenses	7	(11,654,806,923)	(12,621,505,398)
Operating (Loss)/Profit		(3,775,854,496)	(4,610,767,594)
Finance Income		3,321,110,256	3,665,084,725
Finance Cost		(506,142,527)	(2,787,071,806)
Net Finance (Cost) / Income	8	2,814,967,729	878,012,919
(Loss)/Profit Before Tax		(960,886,767)	(3,732,754,675)
Income Tax Expenses	9	(1,122,614,992)	1,228,325,046
(Loss)/Profit for the Year		(2,083,501,758)	(2,504,429,629)
Basic (Loss)/Earning Per Share	10	(10,417)	(12,522)
Other Comprehensive Income			
Gain/(loss) Arising From Changes In Assumptions on Computing Retirement Benefit Obligations	23	878,191,927	497,235,788
Deferred Tax on Actuarial Gain / (loss)	13	(210,766,063)	(119,336,589)
Total Other Comprehensive Income		667,425,865	377,899,199
Total Comprehensive Income for the Year		(1,416,075,894)	(2,126,530,430)

The notes on pages 90 to 117 form an integral part of these financial statements.

Statement of Financial Position

(All amounts in Sri Lankan Rupees)

As at December 31	Note	2021	2020
ASSETS			
Non-Current Assets			
Property, Plant and Equipment	11	41,624,923,625	37,892,565,842
Capital Work in Progress	11	30,459,475,504	8,781,032,278
Intangible Assets	12	21,835,257	40,239,429
Deferred Tax Assets	13	1,878,384,291	1,967,973,553
		73,984,618,678	48,681,811,103
Long Term Investments			
Long Term loans		12,788,500	-
Investment in Debentures	14	4,088,300,000	5,638,300,000
Long Term Bank Deposits		1,266,678,125	1,169,874,563
Loans to Company Officers	16.1	61,602,205	81,019,448
Current Assets			
Inventories	15	808,185,284	837,088,722
Trade and Other Receivables	16	3,845,984,745	3,215,746,028
Income Tax Receivable	26	848,093,206	833,368,210
Short Term Bank Deposits		41,515,132,946	41,932,637,264
Cash and Cash Equivalents	17	413,045,010	826,225,883
		47,430,441,191	47,645,066,108
Total Assets		126,844,428,699	103,216,071,222
EQUITY AND LIABILITIES			
Capital and Reserves			
Stated Capital	18	20,000,200	20,000,200
Reserves	19	6,846,183,247	1,077,266,769
Retained Earnings	20	34,448,138,251	35,885,634,586
		41,314,321,698	36,982,901,555
Non-Current Liabilities			
Borrowings	21	60,435,353,759	43,433,321,775
Debentures	22	4,000,000,000	4,000,000,000
Retirement Benefit Obligation	23	4,837,739,167	5,482,533,223
Deferred Tax Liability	13	7,373,210,258	6,129,418,466
Deferred Government Grants	24	956,671,370	986,349,954
		77,602,974,554	60,031,623,418
Current Liabilities			
Trade and Other Payables	25	3,637,802,214	2,462,071,718
Borrowings	21	4,289,330,231	3,739,474,530
		7,927,132,445	6,201,546,248
Total Liabilities		85,530,106,999	66,233,169,666
Total Equity and Liabilities		126,844,428,699	103,216,071,222

The Board of Directors are responsible for the preparation and presentation of these Financial Statements. These Financial Statements were authorised by the Board of Directors on 31st May 2022.

I certify that these financial statements have been prepared in compliance with the requirements of the Companies Act, No. 07 of 2007.



Chairman



Director



Head of Finance

Statement of Changes in Equity

(All amounts in Sri Lankan Rupees)

	Note	Stated Capital	Other Reserves	Retained Earnings	Total
Balance as at 1 January 2020		20,000,200	1,067,076,769	38,143,580,281	39,230,657,251
Prior Year Adjustments		-	-	(121,225,264)	(121,225,264)
(Loss)/Profit for the Year		-	-	(2,504,429,629)	(2,504,429,629)
Other Comprehensive Income					
Actuarial Loss on Post Employment Benefit Obligations		-	-	497,235,788	497,235,788
Deferred Tax on Actuarial Gain		-	-	(119,336,589)	(119,336,589)
Other Comprehensive Income Net of Tax		-	-	377,899,199	377,899,199
Total Comprehensive Income		-	-	(2,126,530,430)	(2,126,530,430)
Prior Year Adjustments		-	-	-	-
Dividend Paid	28	-	-	-	-
Transfer to Reserve Account		-	10,190,000	(10,190,000)	-
Balance as at 31 December 2020		20,000,200	1,077,266,769	35,885,634,586	36,982,901,554
Balance as at 1 January 2021		20,000,200	1,077,266,769	35,885,634,586	36,982,901,554
Prior Year Adjustments		-	-	(18,920,440)	(18,920,440)
(Loss)/Profit for the Year		-	-	(2,083,501,758)	(2,083,501,758)
Other Comprehensive Income					
Actuarial Gain on Post Employment Benefit Obligations		-	-	878,191,927	878,191,927
Deferred Tax on Actuarial Gain		-	-	(210,766,063)	(210,766,063)
Other Comprehensive Income Net of Tax		-	-	667,425,865	667,425,865
Total Comprehensive Income		-	-	(1,416,075,894)	(1,416,075,894)
Dividend Paid	28	-	-	-	-
FA Revaluation Reserve		-	5,766,416,478	-	5,766,416,478
Transfer to Reserve Account		-	2,500,000	(2,500,000)	-
Balance at 31 December 2021		20,000,200	6,846,183,247	34,448,138,251	41,314,321,699

Statement of Cash Flows

(All amounts in Sri Lankan Rupees)

Year ended 31 December	Note	2021	2020
Cash Flows from Operating Activities			
(Loss)/Profit Before Income Tax Expenses		(960,886,767)	(3,732,754,675)
Adjustment for :			
Depreciation	11	2,630,042,901	2,820,686,229
Amortization of Intangible Assets	12	18,376,125	16,599,094
Prior Year Depreciation/Amortization Adjustment	11-12	13,631,930	58,885,481
Adjustments for Revaluation /Transfer	11	512,203,484	-
Assets Written Off	11-12	167,229,653	-
Exchange (Gain) / Loss on Loans Conversion	21	2,141,205,420	2,268,147,704
Exchange (Gain) / Loss on Fixed Deposits Conversion	21	(2,775,429,116)	(770,750,076)
Income from Investment	8	(3,301,121,938)	(3,681,564,853)
(Profit)/Loss on Sales of Property, Plant and Equipment		9,754,246	(39,386,993)
Prior Year Adjustments	20	(18,920,458)	(124,200,415)
Amortization of Deferred Government Grants	24	(48,656,180)	(47,694,302)
Finance Cost	8	1,140,366,223	1,289,674,178
Provision for Retirement Benefit Plan	23	716,345,888	912,386,047
Operating Profit Before Working Capital Changes		244,141,411	(1,029,972,581)
(Increase)/ Decrease in Inventories		28,903,438	123,936,517
(Increase)/ Decrease in Trade and Other Receivables		(525,569,111)	2,442,334,045
(Increase)/ Decrease in Trade and Other Payables		1,204,329,621	(275,084,982)
Cash Generated From Operations		951,805,359	1,261,212,999
Defined Benefit Plan Costs Paid	23	(482,947,999)	(417,090,045)
Interest Paid		(1,168,965,347)	(1,341,907,020)
Income Tax Paid	26	(14,724,996)	(1,617,818,533)
Net Cash (Used in)/Generated from Operating Activities		(714,832,983)	(2,115,602,600)
Cash Flows From Investing Activities			
Acquisition of Property, Plant and Equipment	11	(22,960,368,432)	(2,140,848,433)
Acquisition of Intangible Assets	12	-	(27,720,585)
Investment in Debentures	14	1,550,000,000	-
Net (Investments)/Withdrawals in Bank Deposits		3,096,129,871	1,052,597,268
Loan Given to Sport Club		(12,788,500)	-
Proceeds From Sale of Property, Plant and Equipment		2,127,330	39,387,040
Interest Received		3,196,452,332	4,173,071,721
Staff Loans Granted		(101,513,352)	(124,931,128)
Staff Loans Receipt		120,930,596	146,013,692
Net Cash generated from Investing Activities		(15,109,030,155)	3,117,569,574
Cash Flows from Financing Activities			
Loan Receipt	21	19,833,345,828	1,083,791,280
Loan Repayment (Local)	21	(133,333,334)	-
Loan Repayment (Foreign)	21	(4,289,330,231)	(3,739,474,532)
Net Cash (Used in)/Generated from Financing Activities		15,410,682,264	(2,655,683,251)
Net (Decrease)/Increase in Cash and Cash Equivalents		(413,180,873)	(1,653,716,277)
Cash and Cash Equivalents at the Beginning of the Year	17	826,225,883	2,479,942,157
Cash and Cash Equivalents at the End of the Year	17	413,045,010	826,225,883

Notes to the Financial Statements

(In the notes all amounts are shown in Sri Lankan Rupees unless otherwise stated)

1. Corporate Information

1.1 General

Airport and Aviation Services (Sri Lanka) (Private) Limited ("Company") is a private limited company incorporated and domiciled in Sri Lanka. The registered office of the Company is located at Bandaranaike International Airport, Katunayake.

1.2 Principal Activities and Nature of Operations

During the year, the principal activities of the Company were management of airports at internationally accepted standards, provision of air navigational services for inbound aircraft and aircraft flying through the Sri Lanka Flight Information Region (FIR) and providing other necessary facilities to the users of the airports.

1.3 Date of Authorization for Issue

The financial statements of Airport and Aviation Services (Sri Lanka) (Private) Limited for the year ended 31 December 2021 were authorised for issue in accordance with a resolution of the Board of Directors on 31st May 2022.

2. Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation

The financial statements have been prepared in accordance with and comply with Sri Lanka Accounting Standards (SLFRSs/LKAS). The financial statements are prepared under the historical cost basis, as modified by fair valuation of certain financial assets and liabilities and present value of defined benefit obligations.

The preparation of financial statements in conformity with SLFRSs requires the use of certain critical accounting estimates. It also requires management to exercise their judgment in the process of applying the Company's accounting policies. The areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

These financial statements are presented in Sri Lanka Rupees. The preparation and presentation of these financial statements is in compliance with the Companies Act. No 07 of 2007.

2.1.1 Amalgamation

These financial statements present the amalgamated position of the Company including:

- a) the Voted Fund representing the government grants for capital expenditure; and
- b) the Retained Revenue Fund,

Which were prepared and presented separately up to the year 2011 pending an opinion from the Attorney General.

The Attorney General's opinion was sought by the Civil Aviation Authority based on a request made by the Company to the Ministry of Aviation to initiate action to commence the statutory amendments mentioned under paragraph 3.5 of the Cabinet Memorandum given in the Cabinet approval dated 17 August 2005 to amalgamate the assets and liabilities of the airport with those of the Company along with the necessary legislative amendments.

The necessity for the above Cabinet approval was due to the ownership of only part of the assets held by the former Airport Authority been transferred to the Company in 1983 with the formation of the Company and dissolution of the Airport Authority with the remaining assets and liabilities been held and accounted under the voted and the retained revenue funds.

The Board of Directors of the Company on 28 June 2013 approved the amalgamation in order to comply with the Sri Lanka Accounting Standards (SLFRSs/LKAS), on the basis that the Company in engaging in its principal activities deriving economic benefits from the use of the assets recorded in the two funds and also accounting for obligations on debt servicing without recording the related liability, thus deviating from fundamental accounting concepts.

2.1.2 Statement of Compliance

The Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Company as per the provisions of the Companies Act and the SLFRSs/LKAS.

The statement of financial position, statements of comprehensive income, changes in equity and cash flows, together with accounting policies and notes, ("Financial Statements") of the Company as at 31 December 2021 and for the year then ended together

with the comparative information are comply with the Sri Lanka Accounting Standards (SLFRS/LKAS) laid down by The Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act.

These Standards are listed at www.casrilanka.com.

2.1.3 Comparative Information

The accounting policies have been consistently applied to all the years presented, unless otherwise stated.

2.1.4 Basis of Measurement

The Financial Statements of the Company have been prepared on the historical cost basis except for the following material items in the Statement of Financial Position:

Investment Property - Fair Value

Short Term Investments classified as fair value through profit or loss - Fair Value

Net Defined Benefit Liability - Liability is recognised as the present value of the Defined Benefit Obligations plus unrecognized actuarial gains, less unrecognized past service cost and unrecognized actuarial Losses

2.1.5 Functional and Presentation Currency

Items included in the Financial Statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the Functional Currency). These Financial Statements are presented in Sri Lankan Rupees, the Company's Functional and Presentation Currency. There was no change in the Company's Presentation and Functional Currency during the year under review.

2.1.6 Presentation of Financial Statements

The assets and liabilities of the Company presented in its Statement of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the Financial Statements. Financial Assets and Financial Liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle permitted by an Accounting Standard or Interpretation, and as specifically disclosed in the Accounting Policies of the Company.

2.1.7 Materiality and Aggregation

Each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard-LKAS 1 on 'Presentation of Financial Statements'.

2.1.8 Use of Judgments and Estimates

The preparation of the Financial Statements of the Company require the conformity with SLFRSs and management to make judgments, estimates and assumptions that affect the application of Accounting Policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively when necessary.

2.1.9 Going Concern

The Management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on a going concern basis.

2.1.10 Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and financial liability or equity instrument of another entity.

2.1.11 Deferred Tax Assets

Deferred tax assets are recognized in respect of tax losses to the extent that it is probable that future taxable profits will be available against which such tax losses can be utilised. Assumptions are made to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies.

2.1.12 Changes in Accounting Policy and Disclosures

New and amended standards and interpretations

Several Amendments to accounting standards are effective for annual periods beginning after 1 January 2021. However these amendments have no significant impact over the Company's financial statements.

Notes to the Financial Statements

(In the notes all amounts are shown in Sri Lankan Rupees unless otherwise stated)

Amendments to SLFRS 9 & LKAS 39– Interest Rate Benchmark Reform (Phase 1 & 2)

The amendments to SLFRS 9 & LKAS 39 provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

Amendments to SLFRS 16 COVID-19 Related Rent Concessions

The amendments provide relief to lessees from applying SLFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 Pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from Covid-19 related rent concession the same way it would account for the change under SLFRS16, if the change were not a lease modification.

Amendments to LKAS 16 - Property, Plant and Equipment: Proceeds before Intended Use

CA Sri Lanka adopted amendments to LKAS16- Property, Plant and Equipment – Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

Amendments to LKAS 37 - Onerous Contracts – Costs of Fulfilling a Contract

CA Sri Lanka adopted amendments to LKAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

2.1.13 Effect of COVID 19 on the Business and Operations

With ongoing COVID-19 pandemic situation and the consequent business and movement restrictions, the Company’s operations were adversely affected from the mid of of the month March 2020. During this financial period total aircraft movements and passenger movements have been decreased by 66% and 76% compared with the financial year 2019. During this period Company experienced significant exchange loss on translation of foreign currencies in to local currency due to depreciation of LKR against major foreign currencies.

However Company was able to manage this situation during the year 2021. Operating loss was gradually decreased up to LKR 3,503.8 Million from LKR 4,610.8 Million in 2021. Both aircraft movements and passenger movements have been increased by 2% and 37% compared with the year 2020.

The management is confident of increasing strong revenue sources and strict follow up actions on debtors to finance the adverse effect to the cash flow, ability to secure supplies, expected revenue streams, credit and collection management practices and ability to defer non-essential capital expenditure. With the relaxation of movement restrictions and gradual restoration of business activities, the company is expected to return to its normal level of activities from the beginning of the year 2022. After due consideration of risks and likelihood of outcomes, the Board of Directors is satisfied that the Company has adequate liquidity and business plans to continue to operate the business and mitigate the risks.

2.2 Foreign Currency Translation

(a) Functional and Presentation Currency
Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (‘the functional currency’). The financial statements are presented in Sri Lankan Rupees, which is the Company’s functional and presentation currency.

(b) Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary

assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in comprehensive income. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Statement of Comprehensive Income within 'finance income or cost'. All other foreign exchange gains and losses are presented in the Statement of Comprehensive Income within 'other (losses)/gains – net'.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through comprehensive income are recognised in comprehensive income as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as at fair value through other comprehensive income are recognised in other comprehensive income.

2.3 Current and Deferred Income Tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the Statement of Comprehensive Income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the Statement of Financial Position date.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying

amounts in the financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the Statement of Financial Position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority.

2.4 Inventories

Inventories are stated at the lower of cost or net realizable value after making due allowances for obsolete and slow moving items.

Spare parts and consumables for fire equipment brought before 31 December 2003 are valued based on a valuation and thereafter on weighted average basis.

The cost incurred in bringing inventories to its present location and conditions are accounted using the weighted average basis other than fuel which is valued at First-in, First-out (FIFO) basis.

Company has made allowances for all inventories which are non-moving for more than 10 years.

2.5 Trade and Other Receivables

Trade receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

Other receivables are recognized at cost less allowances for bad and doubtful receivables.

2.6 Cash and Cash Equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and short term highly liquid

Notes to the Financial Statements

(In the notes all amounts are shown in Sri Lankan Rupees unless otherwise stated)

investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and deposits in banks net of outstanding bank overdrafts. Investments with short maturities i.e. three months or less from the date of acquisition are also treated as cash equivalents.

2.7 Property, Plant and Equipment

All property, plant and equipment is initially recorded at cost and stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items and also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

The cost of self-constructed assets includes the cost of materials, direct labor and an appropriate proportion of production overheads.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefit associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All repairs and maintenance costs are charged to Statement of Comprehensive Income during the financial period in which they are incurred.

Cost of long term capital projects are carried forward in capital projects work- in - progress until the projects are completed and the related assets are available for use.

Depreciation begins when an item of property, plant and equipment is available for use and will continue until it is derecognized, even if during that period the item is idle. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their costs to their residual values over their estimated useful lives.

The useful lives of the assets are estimated as follows:

Buildings	Over 50 Years
Plant and Machinery	Between 04 to 20 Years
Motor Vehicles	Between 04 to 15 Years
Furniture, Fittings and Office Equipment	Over 08 Years
Communication and Navigation Equipment	Between 05 to 10 Years
Other Equipment	Over 08 Years
Airport Infrastructure	Between 08 to 50 Years

An asset's carrying amount is written down immediately to its recoverable amount if the asset carrying amount is greater than its estimated recoverable amount.

When each major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Statement of Comprehensive Income in the year the asset is de-recognized.

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within other income / (losses) net, in the statement of comprehensive income.

Impairment of property, plant and equipment

The carrying value of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount the assets are written down to their recoverable

amount. Impairment losses are recognized in the Statement of Comprehensive Income unless it reverses a previous revaluation surplus for the same asset.

2.8 Stated Capital

Ordinary shares are classified as equity.

2.9 Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Liabilities classified as trade and other payables in the Statement of Financial Position are those which fall due for payment on demand or within one year from the Statement of Financial Position date. Items classified as non-current liabilities are those which fall due for payment beyond a period of one year from the Statement of Financial Position date.

Trade payables are recognized initially at the transaction price and subsequently measured at amortized cost using the effective interest method.

2.10 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facilities will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facilities will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

2.11 Borrowing Costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

2.12 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

2.13 Retirement Benefit Obligations

(a) Defined Benefit Plan

A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the Statement of Financial Position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the actuarial valuation. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep

Notes to the Financial Statements

(In the notes all amounts are shown in Sri Lankan Rupees unless otherwise stated)

market in such bonds, the market rates on government bonds are used.

The company has obtained an independent actuary valuation services for the year for the computation of defined benefit obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

(b) Defined Contribution Plans

All employees of the company in Sri Lanka are members of the Employees' Provident Fund and Employees' Trust Fund, to which the Company contributes 12% and 3% respectively, of such employees' basic or consolidated wage or salary.

2.14 Grants and Subsidies

The monetary grants related to assets are recognized as cost and deferred in the Statement of Financial Position and credited to the Statement of Comprehensive Income over the useful life of the asset.

2.15 Impairment of Non-Financial Assets

Assets that have an indefinite useful life - for example, goodwill or intangible assets not ready to use - are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.16 Financial Assets

2.16.1 Classification

The Company classifies its financial assets in the following categories: Amortised cost, at fair value through profit or loss and fair value through other comprehensive income. The classification of financial assets at initial recognition depends on the financial

asset's contractual cash flow characteristics and the Company's business model for managing them.

(a) Amortised Cost

The asset is measured at the amount recognized at initial recognition minus principal repayments, plus or minus the cumulative amortization of any difference between that initial amount and the maturity amount, and any loss allowance. Interest income is calculated using the effective interest method and is recognized in profit and loss. Changes in fair value are recognized in profit and loss when the asset is derecognized or reclassified.

(b) Fair Value through Other Comprehensive Income
Loans and receivables - Interest revenue, impairment gains and losses, and a portion of foreign exchange gains and losses, are recognized in profit and loss on the same basis as for Amortized Cost assets.

Changes in fair value are recognized initially in Other Comprehensive Income (OCI). When the asset is derecognized or reclassified, changes in fair value previously recognized in OCI and accumulated in equity are reclassified to profit and loss on a basis that always results in an asset measured at fair value through other comprehensive income (FVOCI) having the same effect on profit and loss as if it were measured at Amortized Cost.

Investments in equity instruments - Dividends are recognized when the entity's right to receive payment is established, it is probable the economic benefits will flow to the entity and the amount can be measured reliably. Dividends are recognized in profit and loss unless they clearly represent recovery of a part of the cost of the investment, in which case they are included in OCI. Changes in fair value are recognized in OCI and are never recycled to profit and loss, even if the asset is sold or impaired

(c) Fair Value through Profit or Loss

Assets that do not meet the criteria for amortised cost or fair value through other comprehensive income (FVOCI) are measured at fair value through profit or loss (FVPL)

2.16.2 Recognition and Measurement

Regular purchases and sales of financial assets are recognized on the trade-date - the date on which the company commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried

at fair value through profit or loss. Financial assets carried at fair value through profit or losses are initially recognized at fair value, and transaction costs are expensed in the Statement of Comprehensive Income. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the Statement of Comprehensive Income within other gains/(losses) - net, in the period in which they arise.

Dividend income from financial assets at fair value through profit or loss is recognized in the Statement of Comprehensive Income as part of other income when the company's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognized in other comprehensive income.

2.17 Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.18 Impairment of Financial Assets

The company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant

financial difficulties, default or delinquency in interest or principle payment, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

SLFRS 9 requires to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. Loss allowance for trade receivables is always measured at an amount equal to lifetime Expected Credit Loss (ECL). When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information. The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 365 days past due.

2.19 Financial Liabilities

The Company's financial liabilities include trade and other payables, bank loans and other borrowings and unfavorable currency forward contract. All other financial liabilities except for financial liabilities at fair value through profit or loss are recognized initially at their fair values and subsequently measured at amortized cost, using the effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

2.20 Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable net of trade discounts and sales taxes. The following specific criteria are used for the purpose of recognition of revenue.

(a) Rendering of Services

Revenue from rendering of services is recognized in the accounting period in which the services are rendered or performed.

Notes to the Financial Statements

(In the notes all amounts are shown in Sri Lankan Rupees unless otherwise stated)

(b) Interest

Interest Income is recognized as the interest accrues unless collectability is in doubt.

(c) Rental Income

Rental income is recognised as specified in the rental agreements on an accrual basis.

(d) Franchise Fee and Concessions

Franchise fees and concessions are recognized on an accrual basis in accordance with the substance of the relevant agreement and recognised on an accrual basis.

(e) Landing & Parking Income International / Domestic

Landing and parking income is based on the maximum take off weight (MTOW), subject to a minimum charge and parking duration in the apron of the airport and recognised on an accrual basis.

(f) Overflying Income

Overflying income is calculated based on the MTOW of aircraft and recognised on an accrual basis.

(g) Aerobridge Charges

Aerobridge income is calculated based on usage time of aerobridge and type of aircraft. Income is recognised on an accrual basis.

(h) Embarkation Levy

Embarkation levy is collected by Civil Aviation Authority of Sri Lanka as per the Finance Act and USD 9.75 is remitted to AASL. Revenue is recognised on cash basis.

(i) Entry Permit Fees, Parking Fees (Vehicles), Paging Board

Revenue is collected and recognised on cash basis

(j) Others

Lounge income is recognised on cash and accrual basis depending on the payment method.

Incinerator income is recognised on accrual basis.

Other income sources is recognized on cash and accrual basis depending on the payment method.

3. Financial Risk Management

3.1 Financial Risk Factors

The company's activities expose it to a variety of financial risk: market risk (including foreign currency risk, cash flow and fair value interest rate risk), credit risk and liquidity risk.

(a) Market Risk

(i) Foreign Exchange Risk

The company is sensitive to the fluctuations in exchange rates and is principally exposed to fluctuations in the value of the Sri Lanka Rupee (LKR) against the United States Dollar (USD), Euro, and Japanese Yen. The company's functional currency is LKR in which most of the transactions are denominated, and most of other currencies are considered foreign currencies for loan repayment purposes. Certain trade and other receivables and trade and other payables are denominated in foreign currencies.

The Company's financial statements which are presented in Sri Lankan Rupees, are affected by foreign exchange fluctuations through both translation risk and transaction risk. Changes in foreign currency exchange rates may affect the company's profits or losses. For example weakening of the Sri Lanka Rupee against the United States Dollar can have adverse effects on the company's profitability through its impact on repayment of loans taken by foreign currencies through Department of Treasury.

The table below shows the Company's sensitivity to reasonable possible change in exchange rate of LKR against USD, Euro and Japanese Yen assessed by the Company, while all other variables are held constant. The USD and Japanese Yen are the major currencies in which Company's financial instruments are denominated after the Company's presentation and document currency - LKR. The impact of the movement in exchange rates of USD, Euro and Japanese Yen on profit are given in the table below.

Sensitivity of the exchange rate of USD against LKR

	2021 Increase/ (Decrease) in profit (LKR)	2020 Increase/ (Decrease) in profit (LKR)
10 % appreciation/ depreciation (2020 - 10%) of the USD	(212,157,236)	(90,301,302)
15 % appreciation/ depreciation (2020 - 15%) of the USD	(318,235,854)	(135,451,953)
20 % appreciation/ depreciation (2020 - 20%) of the USD	(424,314,471)	(180,602,604)

Sensitivity of the exchange rate of Euro against LKR

	2021 Increase/ (Decrease) in profit (LKR)	2020 Increase/ (Decrease) in profit (LKR)
10 % appreciation/ depreciation (2020 - 10%) of the Euro	(34,882)	(1,212,899)
15 % appreciation/ depreciation (2020 - 15%) of the Euro	(52,323)	(1,819,349)
20 % appreciation/ depreciation (2020 - 20%) of the Euro	(69,764)	(2,425,798)

Sensitivity of the exchange rate of Japanese Yen against LKR

	2021 Increase/(Decrease) in profit (LKR)	2020 Increase/ (Decrease) in profit (LKR)
10 % appreciation/ depreciation (2020 - 10%) of the Yen	(1,928,424)	(135,300,569)
15 % appreciation/ depreciation (2020 - 15%) of the Yen	(2,892,637)	(202,950,854)
20 % appreciation/ depreciation (2020 - 20%) of the Yen	(3,856,849)	(270,601,138)

(ii) Cash flow and fair value interest rate risk

The Company's interest rate risk arises from long term borrowings denominated in USD, Euro, and Japanese Yen. These are issued at fixed rates and thus it mitigates the cash flow interest rate risks on borrowings. This will further mitigated by the cash held at variable rates. Borrowings issued at fixed rates expose the company to fair value interest rate risk.

The Company has considered movements in these interest rates over the last years and has concluded that the movement in interest rates is not deemed to have a material effect on equity.

Notes to the Financial Statements

(In the notes all amounts are shown in Sri Lankan Rupees unless otherwise stated)

(b) Credit risk

The credit risk arises from trade and other receivables from outside parties.

(c) Liquidity risk

Cash flow forecasting is performed by the finance division. The finance division monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs. Such forecasting takes into consideration the Company's debt financing plans, covenant compliance, compliance with internal Statement of Financial Position ratio targets and, if applicable external regulatory or legal requirements - for example, currency restrictions.

Surplus cash held by the company over and above balance required for working capital management are invested in short term government securities to mitigate the liquidity risk.

3.2 Capital Risk Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The company assesses solvency prior to declaration of dividend to maintain the dividend ratio. Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total capital. Debt is calculated as total borrowings including "current and non-current borrowings" as shown in the Statement of Financial Position. Total capital is calculated as "equity" as shown in the Statement of Financial Position.

The gearing ratio as at 31 December 2021 and 31 December 2020 were as follows:

	Company	
	2021	2020
Total borrowings (Note 21 & Note 22)	68,724,683,990	51,172,796,305
Less: cash and cash equivalents (Note 17)	(413,045,010)	(826,225,883)
Less: Short term bank deposits	(41,515,132,946)	(41,932,637,264)
Net debt	26,796,506,034	8,413,933,157
Total equity	41,314,321,699	36,982,901,554
Total capital	68,110,827,732	45,396,834,712
Gearing ratio	39%	19%

The above loan wholly consists of loans obtained through General Treasury for the development of Airports under sovereign guarantee, Debenture issued for the settlement of outstanding balance of Contractor of Mattala Rajapakse International Airport and a loan obtained from Bank of Ceylon. The fair value of borrowings equals their carrying amount as the impact of discounting is not significant.

3.3 Fair Value Estimation

The Company had no financial instruments measured at fair value.

4. Critical Accounting Estimates and Judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical Accounting Estimates and Assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below:

(a) Defined Benefit Plan - Gratuity

The present value of the defined benefit plan depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for defined benefit plan include the discount rate. Any changes in these assumptions will impact the carrying amount of defined benefit plan. The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the defined benefit obligations. Other key assumptions for defined benefit plan are based in part on current market conditions. Additional information is disclosed in Note 23.

(b) Provisions

The Company recognizes provisions when it has a present legal or constructive obligation arising as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. The recording of provisions requires the application of judgments about the ultimate resolution of these obligations. As a result, provisions are reviewed at each Statement of Financial Position date and adjusted to reflect the company's current best estimate.

Notes to the Financial Statements

(In the notes all amounts are shown in Sri Lankan Rupees unless otherwise stated)

5 Revenue

	2021	2020
Aeronautical	2,299,185,952	2,290,647,423
Non-Aeronautical	5,086,984,442	5,485,690,833
	7,386,170,394	7,776,338,256
Aeronautical Revenue		
Landing & Parking Income	1,750,806,076	1,500,221,037
Overflying Income	408,101,087	643,836,873
Aerobridge Income	122,565,087	135,934,318
Domestic Landing & Parking Income	17,713,702	10,655,196
	2,299,185,952	2,290,647,423
Non-Aeronautical Revenue		
Embarkation Levy	967,956,431	1,476,062,613
Concession	2,066,932,441	1,735,552,229
Rental	936,033,523	1,355,027,377
Entry Permits	65,592,333	55,100,696
Fuel Throughput Chargers	92,509,170	71,971,286
Franchise Fee on Ground Handling - SLA	230,334,668	208,643,495
Franchise Fee - SLCS	104,985,871	93,794,022
Parking Fees - Vehicles	75,998,637	16,730,001
Domestic Ground Handling CIAR / BIA	14,779,186	10,910,788
Other Non-Aeronautical Income	531,862,182	461,898,326
	5,086,984,442	5,485,690,833
Total Aeronautical and Non-Aeronautical Revenue	7,386,170,394	7,776,338,256

6 Other Income

	2021	2020
Amortization of Government Grant	48,656,180	47,694,299
Operating Profit from Fuel Filling Station (Note 6.1)	36,154,500	33,398,740
Net Foreign Exchange (Gain)/ Loss on Transactions/ Translations	407,971,354	153,306,510
	492,782,034	234,399,549

Other Income Comprises Exchange Gain on Operating Activities and Miscellaneous Income.

6.1 Operating Profit from Fuel Filling Station

	2021	2020
Sales	1,315,341,235	1,112,421,737
Less: Cost of Sales	(1,279,186,735)	(1,079,022,997)
Gross Profit	36,154,500	33,398,740

7 Administration and Establishment Expenses

	2021	2020
Directors' Emoluments	11,307,484	6,603,688
Staff Cost	6,040,068,058	5,776,645,144
Defined Contribution Plan Costs	729,153,624	726,344,066
Defined Benefit Plan Costs	716,345,888	912,386,047
Auditor's Remuneration	1,200,000	1,793,000
Depreciation (Note 11)	2,630,042,901	2,837,361,089
Amortization (Note 12)	18,376,125	16,599,094
Provision for Debtors Impairment	(600,581,521)	643,481,376
Repair and Maintenance	354,388,479	265,981,053
Electricity Expenses	783,986,227	745,128,175
Legal Fees	1,238,213	1,760,010
Donations	20,047,158	410,290
Other Expenses	949,234,287	687,012,366
	11,654,806,923	12,621,505,398

8 Net Finance (Cost) / Income

	2021	2020
8.1 Finance Income		
Interest on Treasury Bills/Bonds under Repurchase Agreements	11,753,814	66,511,166
Interest on USD Fixed Deposits	2,400,420,883	2,040,821,780
Interest on Rupee Fixed Deposits	295,772,911	896,290,215
Interest on Debenture	593,174,330	677,941,692
Interest on Staff Loans	10,497,967	7,720,729
IFRS Interest on Staff Loan	9,490,351	(24,200,857)
	3,321,110,256	3,665,084,725

8.2 Finance Cost

	2021	2020
Loan Interest	(1,140,366,223)	(1,289,674,178)
Exchange Gain / (Loss) on Loans Conversion	(2,141,205,420)	(2,268,147,704)
Exchange Gain / (Loss) on Fixed Deposits Conversion	2,775,429,116	770,750,076
	(506,142,527)	(2,787,071,806)
Net Finance (Cost) / Income	2,814,967,729	878,012,919

Notes to the Financial Statements

(In the notes all amounts are shown in Sri Lankan Rupees unless otherwise stated)

9 Income Tax Expense

The major components of Income Tax Expense for the year ended 31 December 2021 are as follows :

	2021	2020
Current Income Tax		
Current Tax Charge	-	-
Income Tax	-	-
Deferred Income Tax		
Charge / (Reversal) in respect of Deferred Taxation (Note 13)	1,122,614,992	(1,228,325,046)
Total Tax Expense	1,122,614,992	(1,228,325,046)

The tax on the Company's profit before tax differs from the theoretical amount that would arise using basic tax rate (24%) applicable to profits of the company as follows :

	2021	2020
(Loss)/Profit Before Tax	(960,886,767)	(3,732,754,675)
Tax calculated at the effective tax rate of 24%	-	-
Tax effect on Expenses not deductible for tax	-	-
Tax effect on Expenses/Income deductible for tax	-	-
Tax losses for which no Deferred Income Tax Asset was recognised	1,122,614,992	(1,228,325,046)
Total Tax Expense	1,122,614,992	(1,228,325,046)

10 Basic (Loss)/Earnings per Share

Basic (Loss)/Earnings per share is calculated by dividing the net (loss)/profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. The weighted average number of ordinary shares outstanding during the year and the previous year are adjusted for events that have changed the number of ordinary shares outstanding, without a corresponding change in the resources such as a bonus issue.

The following reflects the income and share data used in the Basic Earnings per Share computation.

	2021	2020
Net (Loss)/Profit attributable to Shareholders - LKR	(2,083,501,758)	(2,504,429,629)
Weighted average number of Ordinary Shares in Issue	200,002	200,002
Basic (Loss)/Earning per Share - LKR	(10,417)	(12,522)

11 Property, Plant and Equipment

- (i) Land and building includes land amounting to LKR.935,934,901 as at 31 December 2021 (2020 - LKR.964,479,791) which is located at Katunayake.
- (ii) The construction of second International Airport at Mattala (MRIA) which commenced operations in March 2013 had been constructed on a land leased out by the Government of Sri Lanka on a 99 year lease period. The base payments on the lease fall due after a grace period of 50 years from 2011. A total asset value of LKR 19 Billion relating to MRIA is included in the amalgamated Property, Plant & Equipment as at 31.12.2021.
- (iii) Part of the buildings of the Katunayake airport are constructed on Government land.
- (iv) Property, Plant and Equipment includes fully depreciated assets amounting to LKR 19,133,666,346 (2020 -LKR 14,007,811,776). Value of fully depreciated assets has been reduced during year 2021 due to written off some assets belonged to Voted funds.

“As per the Extraordinary Gazette Notification bearing No.2050/38 dated 21.12.2017, the Minister In Charge of the subject of the Civil Aviation has made an order in transferring and vesting the Aerodromes and aeronautical facilities in the Civil Aviation Authority of Sri Lanka.(CAASL) When going through the aforesaid sequence of events, it is presumed that from the inception, AASL has been in use and control of immovable properties vested in the Director General of CAASL (DGCAASL), holding immovable properties vested in the DGCAASL or Withholding immovable properties with the permission of CAASL has never held title to such properties. Therefore, the above Gazette notification merely a demonstration of a mechanism of the ownership of immovable properties which are being used by AASL and which is a continuation of previous scenarios.”

Valuation of Building

During the year under review, The buildings of Bandaranayake Intention Airport have been revalued by Government Valuation Department. This valuation had been carried out for the purpose of disclosing the market value of buildings owned by the Company.

Fair value is determined by reference to market-based evidence of transaction prices for similar properties. Valuations are based on open market prices, adjusted for any difference in the nature, location or condition of the specific property. These valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimizing the use of unobservable inputs.

The changes in fair value recognised in other comprehensive income and in the statement of equity. The valuer has used valuation techniques such as market values and discounted cash flow methods where there was lack of comparable market data available based on the nature of the property.

Notes to the Financial Statements

(In the notes all amounts are shown in Sri Lankan Rupees unless otherwise stated)

11. Property, plant and equipment

As at 1 January 2020	Land & Buildings	Plant and machinery	Motor vehicle	Furniture, Fittings & Office Equipments
Cost	17,870,765,653	5,424,670,039	1,768,227,894	1,168,424,803
Accumulated depreciation	(4,685,110,325)	(4,500,113,936)	(1,221,907,512)	(1,041,867,873)
Provision for doubtful projects				
Closing net book amount	13,185,655,328	924,556,104	546,320,382	126,556,930
Year ended 31 December 2020				
Opening net book amount	13,185,655,328	924,556,104	546,320,382	126,556,930
Additions	191,093,993	184,057,206	140,909,286	47,392,399
Donation	-	-	1,415,000	-
Adjustments- cost				
- Accumulated depreciation	(1,023,285)	(1,259,246)	-	(398,025)
Transfers - cost	(46,166,384)	(146,768,417)	1,805,063	(5,401,913)
- Accumulated depreciation	15,471,724	147,903,136	(1,805,063)	5,264,048
Written off - cost	-	-	-	-
- Accumulated depreciation	-	-	-	-
Disposals - cost	-	-	(29,904,413)	-
- Accumulated depreciation	-	-	29,904,366	-
Depreciation charge (Note 7)	(341,411,481)	(211,518,474)	(95,185,339)	(65,285,981)
Closing net book amount	13,003,619,895	896,970,308	593,459,282	108,127,459
As at 31 December 2020				
Cost	18,015,693,263	5,461,958,829	1,882,452,830	1,210,415,290
Accumulated depreciation	(5,012,073,368)	(4,564,988,521)	(1,288,993,549)	(1,102,287,831)
Provision for doubtful projects				
Closing net book amount	13,003,619,895	896,970,308	593,459,282	108,127,459
Year ended 31 December 2021				
Opening net book amount	13,003,619,895	896,970,308	593,459,282	108,127,459
Additions	2,117,085	505,783,322	59,603,281	77,483,139
Donation	-	-	18,977,595	-
Adjustments- cost				
- Accumulated depreciation	3,862,495	(32,254,460)	1,751,840	34,679
Disposals - cost	(10,171,444)	-	(1,751,840)	(851,726)
- Accumulated depreciation	41,729	-	-	851,705
Written off - cost	(153,187,156)	(1,495,004)	(9,527,078)	(48,448,861)
- Accumulated depreciation	151,346	1,427,698	9,527,078	48,402,794
Transfers - cost	(3,743,893,089)	-	-	(2,617,304)
- Accumulated depreciation	3,744,255,671	-	-	2,617,041
Revaluation -Cost	5,827,922,820	-	-	-
- Accumulated depreciation				
Depreciation charge (Note 7)	(472,681,611)	(258,231,419)	(101,819,918)	(45,467,214)
Closing net book amount	18,202,037,741	1,112,200,446	570,220,240	140,131,711
As at 31 December 2021				
Cost	19,938,481,480	5,966,247,147	1,949,754,788	1,235,980,538
Accumulated depreciation	(1,736,443,738)	(4,854,046,701)	(1,379,534,548)	(1,095,848,827)
Provision for doubtful projects	-	-	-	-
Closing net book amount	18,202,037,741	1,112,200,446	570,220,240	140,131,711

Communication & Navigation Equipment	Other Equipment	Airport Infrastructure	Capital Work In Progress	Total
8,607,281,993	1,432,444,675	36,403,680,971	7,544,657,151	80,220,153,180
(7,288,096,502)	(1,065,239,231)	(13,001,593,131)	-	(32,803,928,511)
			(6,197,854)	(6,197,854)
1,319,185,490	367,205,444	23,402,087,840	7,538,459,297	47,410,026,815
1,319,185,490	367,205,444	23,402,087,840	7,538,459,297	47,410,026,815
187,660,164	142,202,251	21,635,049	1,636,235,869	2,551,186,218
-	-	-	-	1,415,000
(24,438,820)	(23,121,351)	(7,765,122)	-	(58,005,849)
19,291,081	(6,684,129)	167,249,801	(393,662,888)	(410,337,785)
1,575,970	6,732,931	(158,467,886)	-	16,674,860
-	-	(830,045,097)	-	(830,045,097)
-	-	830,045,094	-	830,045,094
-	-	-	-	(29,904,413)
-	-	-	-	29,904,366
(369,208,597)	(101,100,502)	(1,653,650,713)	-	(2,837,361,088)
1,134,065,288	385,234,643	21,771,088,967	8,781,032,278	46,673,598,120
8,814,233,238	1,567,962,796	35,762,520,725	8,787,230,132	81,502,467,103
(7,680,167,950)	(1,182,728,154)	(13,991,431,757)	-	(34,822,671,129)
			(6,197,854)	(6,197,854)
1,134,065,288	385,234,643	21,771,088,967	8,781,032,278	46,673,598,120
1,134,065,288	385,234,643	21,771,088,967	8,781,032,278	46,673,598,120
23,977,381	72,792,323	31,840,970	22,186,770,931	22,960,368,432
-	-	-	-	18,977,595
(79,066)	39,557	4,664,024	-	(21,980,931)
-	-	-	-	(12,775,010)
-	-	-	-	893,434
(4,213,419)	(34,493,071)	(5,652,388)	-	(257,016,977)
4,162,386	34,493,071	-	-	98,164,373
1,985,424	(62,505,579)	(577,193,950)	(508,327,704)	(4,892,552,201)
(4,447,089)	64,967,468	572,955,627	-	4,380,348,717
	(1,525)	(61,504,816)	-	5,766,416,479
				-
(308,801,571)	(156,315,763)	(1,286,725,405)	-	(2,630,042,901)
846,649,335	304,211,123	20,449,473,030	30,459,475,504	72,084,399,129
8,835,982,624	1,543,754,944	35,150,010,541	30,465,673,358	105,085,885,420
(7,989,333,289)	(1,239,543,821)	(14,700,537,511)	-	(32,995,288,437)
-	-	-	(6,197,854)	(6,197,854)
846,649,335	304,211,123	20,449,473,030	30,459,475,504	72,084,399,129

Notes to the Financial Statements

(In the notes all amounts are shown in Sri Lankan Rupees unless otherwise stated)

12 Intangible Assets

	2021	2020
At the beginning of the Year		
Cost	135,129,553	107,408,968
Accumulated depreciation	(94,890,124)	(77,411,398)
	40,239,429	29,997,570
Movement during the year		
Opening Net Book Amount	40,239,429	29,997,570
Additions	-	27,720,585
Prior Year Amortisation Adjustment	8,349,000	(879,632)
Written off/Trasfer- Cost	(14,222,583)	16,674,876
Written off/Trasfer- Depreciation	5,845,534	(16,674,876)
Amortisation during the year	(18,376,125)	(16,599,094)
Closing Net Book Amount	21,835,257	40,239,429
At the end of the Year		
Cost	120,906,971	135,129,553
Accumulated Depreciation	(99,071,714)	(94,890,124)
Closing Net Book Amount	21,835,257	40,239,429

The useful lives of the software assets are estimated as 4 years

13 Deferred Income Tax

	Statement of Financial Position		Statement of Comprehensive Income	
	2021	2020	2021	2020
Deferred Tax Liability on:				
Accelerated Tax Depreciation	7,373,210,258	6,129,418,466	1,243,791,792	(1,260,384,131)
	7,373,210,258	6,129,418,466	1,243,791,792	(1,260,384,131)
Deferred Tax Assets on:				
Defined Benefit Plan	1,161,057,403	1,315,807,969	154,750,566	219,844,471
Provision for Inventory & Debtors	487,725,759	629,568,927	141,843,168	(76,876,133)
Deferred Government Grants	229,601,129	22,596,657	(207,004,472)	8,427,337
	1,878,384,291	1,967,973,553	89,589,262	151,395,675
Other Comprehensive Income				
Deferred Income Tax on Actuarial Gain/(Loss) on Defined Benefit Plan			(210,766,063)	(119,336,589)
Deferred Income Tax Charge/ (Credit) (Note 9)			1,122,614,992	(1,228,325,046)

Deferred Income Tax Assets and Liabilities are offset when there is a legally enforceable right to offset current tax against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The Net Deferred Tax amount is as follows;

Deferred Tax Asset	1,878,384,291	1,967,973,553
Deferred Tax Liability	(7,373,210,258)	(6,129,418,466)
Deferred Tax Asset (Net)	(5,494,825,966)	(4,161,444,912)

14 Investment in Debentures

Investment in Debentures wholly consists of investment in 5 - 8 year Redeemable Debentures of Bank of Ceylon, Sampath Bank, Rural Development Bank, Hatton National Bank & DFCC Bank. The carrying value of the investment, held to maturity equals the fair value.

	2021	2020
<i>Debentures at weighted average rates of interest</i>		
6 month TB Rate + 1.25%	800,000,000	800,000,000
Debentures at Fixed Rate (11.25% - 15.50%)	3,288,300,000	4,838,300,000
	4,088,300,000	5,638,300,000

Debenture date of issue and date of redemption are as follows ;

Date of Issue	Date of Redemption	Amount of Investment	
		2021	2020
08.10.2015	07.10.2023	800,000,000	800,000,000
25.10.2016	24.10.2021	-	750,000,000
25.10.2016	24.10.2023	50,000,000	50,000,000
16.03.2016	15.03.2021	-	300,000,000
10.06.2016	10.06.2021	-	500,000,000
31.03.2017	31.03.2022	800,000,000	800,000,000
03.04.2017	04.04.2022	150,000,000	150,000,000
27.12.2017	27.12.2022	340,000,000	340,000,000
15.03.2018	15.03.2023	449,000,000	449,000,000
29.03.2018	29.03.2025	445,000,000	445,000,000
10.09.2019	10.09.2024	800,000,000	800,000,000
23.09.2019	23.09.2026	254,300,000	254,300,000
		4,088,300,000	5,638,300,000

Company placed debentures amounting to LKR 4,088.3 Million as at 31 December 2021 for creating the dedicated fund to serve the Retirement Benefit Liabilities of the company.

15 Inventories

	2021	2020
General	70,435,035	64,370,571
Electronics	89,702,907	74,337,118
Engineering	180,555,015	227,880,046
Fuel	25,354,064	15,898,574
Fire Equipment Spare Parts	17,547,678	20,163,425
Goods in Transit	516,323,637	507,077,989
Stocks -(Motor Spares)	38,990,070	-
Stock - Lounge	106,641	280,185
Inventory clearing Accounts	(48,342,255)	
	890,672,792	910,007,908
Less : Allowance for Slow Moving Inventory	(82,487,508)	(72,919,186)
	808,185,284	837,088,722

The General Inventory includes painting items, stationeries, staff uniform and other hardware items, etc..

Notes to the Financial Statements

(In the notes all amounts are shown in Sri Lankan Rupees unless otherwise stated)

16 Trade and Other Receivables

	2021	2020
Trade Debtors	4,080,253,763	4,222,977,895
Less: Impairment of Trade Receivables	(1,949,703,156)	(2,548,817,147)
	2,130,550,607	1,674,160,748
Other Receivables	1,433,445,923	1,330,069,002
Advances and Prepayments	215,828,600	133,837,406
Less: Impairment of Other Receivables	-	(1,467,530)
	1,649,274,523	1,462,438,878
Loans to Company Officers (Note 16.1)	66,159,615	79,146,402
	66,159,615	79,146,402
	3,845,984,745	3,215,746,028

Loans to Company Officers are receivable from employees in equal monthly installments over the loan period not exceeding 4 years. Interest is charged on employee loans at a rate of 4.2% per annum. As per accounting policy the employee loans are measured at amortized cost using the effective interest method of each reporting date. The effective interest on employee loans was 11.5% in 2021 (2020: 8 %)

	2021	2020
16.1 Loans to Company Officers		
- Less than 1 year	66,159,615	79,146,402
- More than 1 year	61,602,205	81,019,448
	127,761,820	160,165,850

17 Cash and Cash Equivalents

	2021	2020
Treasury Bills/Bonds under Repurchase Agreements	20,098,830	420,106,413
Cash & Bank		
Cash at Bank	391,598,780	405,005,971
Cash in Hand	1,347,400	1,113,500
	392,946,180	406,119,471
Total Cash and Cash Equivalents for the purpose of Cash Flow Statement	413,045,010	826,225,883

18 Stated Capital

	Number of Shares	2021	2020
Stated Capital	200,002	20,000,200	20,000,200
		20,000,200	20,000,200

All issued shares are fully paid

19 Reserves

	2021	2020
Net Assets taken over from Airports Authority	892,726,769	892,726,769
FA Revaluation Reserve	5,766,416,478	-
Reserve for Lightning Damages to Property, Plant and Equipment and Inventory	187,040,000	184,540,000
	6,846,183,247	1,077,266,769

The reserve consist of value of net assets transferred to the Company from the Airports Authority which was dissolved upon the incorporation of the Company. LKR 187.04 Million transferred from retained earnings (5% of annual asset additions of electronic, electrical, communication & other equipment) for fire damages to property plant and equipment due to lightning with effect from 2013.

20 Retained Earnings

	2021	2020
As at beginning of the year	35,885,634,588	38,143,580,282
Current year (Loss)/Profit	(2,083,501,758)	(2,504,429,629)
Prior Year Adjustments	(18,920,440)	(121,225,264)
Other Comprehensive Income / (Expenses)	667,425,865	377,899,199
Transfer to Reserve Account	(2,500,000)	(10,190,000)
Dividend paid during the year	-	-
As at end of the year	34,448,138,254	35,885,634,588

21 Borrowings

Borrowings represent both foreign loans and loans obtained from local commercial banks.

21.1 Foreign Loans

	2021	2020
Loans		
Balance at the beginning of the year	46,772,796,305	47,560,331,853
Loans obtained during the year	19,833,345,830	683,791,280
	66,606,142,134	48,244,123,133
Loans settled during the year	(4,289,330,231)	(3,739,474,532)
Exchange (gain)/loss on translation	2,141,205,420	2,268,147,704
Balance at the end of the year	64,458,017,324	46,772,796,305

Notes to the Financial Statements

(In the notes all amounts are shown in Sri Lankan Rupees unless otherwise stated)

21.2 Local Loans

	2021	2020
Balance at the beginning of the year	400,000,000	-
Loans obtained during the year	-	400,000,000
	400,000,000	400,000,000
Loans settled during the year	(133,333,334)	-
Balance at the end of the year	266,666,666	400,000,000

Classification of Loans

Current Portion of Borrowings	4,289,330,231	3,739,474,530
Non - Current Portion of Borrowings	60,435,353,759	43,433,321,775
	64,724,683,990	47,172,796,305

Maturity Analysis of the Borrowings

	2021	2020
No Later than 1 year	4,289,330,231	3,739,474,530
Later than 1 year and no later than 5 years	15,257,601,250	15,390,934,584
Later than 5 years	45,177,752,509	28,042,387,191

The fair values are based on cash flows discounted using rates based on each of the following loans :

	2021 (%)	2020 (%)
United States Dollar (USD)		
- Mattala Rajapakse International Airport	2.00	2.00
- Runway Overlay	LIBOR + 2	LIBOR + 2
Japanese Yen		
- BIA Development Project	1.80	1.80
- BIA Development Project Phase II Stage 1	0.75	0.75
- BIA Development Project Phase II Stage 2	0.20	0.20
Euro		
- Modern RMA Air Traffic Control System - Tranche - 2	4.90	4.90
- Modern RMA Air Traffic Control System - Tranche - 3	2.10	2.10
LKR		
- Bank Loan against Fixed Deposits	6.25	AER of FD+0.5
	2021	2020
United States Dollar (USD)	140,097,017	156,015,989
Japanese Yen	20,197,240,766	9,302,888,849
Euro	288,522	393,964
Sri Lankan Rupee (LKR)	266,666,666	400,000,000

22 Debentures

	2021	2020
Issued Debentures	4,000,000,000	4,000,000,000
	4,000,000,000	4,000,000,000

Company issued 40,000,000 guaranteed unlisted redeemable senior debentures at the rate of AWPLR+2.00% per annum payable semi-annually at par value of LKR100/- each with a maturity period of 15 years to National Savings Bank in May 2019 to raise LKR 4 Billion to settle outstanding payments to the China Harbour Engineering Company, the contractor of Mattala Rajapakse International Airport.

23 Retirement Benefit Obligations

Movement in the liability recognized in the Statement of Financial Position is as follows:

	2021	2020
As at beginning of the year	5,482,533,223	5,484,473,009
Prior year adjustments	(18)	
Current Service Cost	277,743,232	336,516,383
Interest Cost	438,602,656	575,869,664
Payments made during the year	(482,947,999)	(417,090,045)
(Gain)/Loss arising from changes in assumptions used	(878,191,927)	(497,235,788)
As at end of the year	4,837,739,167	5,482,533,223

The principle assumptions used in determining the cost of employee benefits using the projected unit credit method to calculate the liability for Defined Benefit Obligations at year end. were:

	2021	2020
Discount rate	11.50%	8.00%
Rate of future salary increases	1% - 11%	1% - 11%
Cost of Living Allowance increment rate	9.00%	4.50%
Rate of Staff Turnover	0.6%	0.6%
Retirement Age	62 years	60 years

The provision for Retirement Benefit Obligations for the year is based on the Actuarial Valuation carried out by professionally qualified actuaries M/S Actuarial & Management Consultants (Pvt) Ltd as at 31st December 2021.

The liability for Defined Benefit Obligations is not externally funded.

24 Deferred Government Grant**Treasury Grant and Foreign Grant**

	2021	2020
At the beginning of the year	986,349,954	1,034,044,256
Received during the year	18,977,595	-
Prior Year Adjustment	-	-
Reversal of over Amortization/(Amortization)	(48,656,180)	(47,694,302)
At the end of the year	956,671,370	986,349,954

Company received a Grant of LKR 18,977,595 during the year 2021 in relation to motor vehicles from Japan This was recorded during the year and amortization will be recorded over the useful life of those assets

Notes to the Financial Statements

(In the notes all amounts are shown in Sri Lankan Rupees unless otherwise stated)

25 Trade and Other Payables

	2021	2020
Trade Payable	298,780,902	1,258,146,501
Refundable Deposits	343,873,540	332,295,958
Other Payables	2,995,147,771	871,629,258
	3,637,802,214	2,462,071,717

26 Income Tax (Receivable)/Payable

	2021	2020
Balance at the beginning of the year	(833,368,210)	786,010,474
Prior Year Adjustments		(1,560,151)
Provisions for the year	-	-
Payments during the year	(14,724,996)	(1,617,818,533)
Balance at the end of the year	(848,093,206)	(833,368,210)

27 Financial Instruments by Category

(a) Financial Instruments

	2021	2020
Financial Assets		
Amortised Cost		
Trade and other Receivables (Excluding prepayments, Advances) (Note 16)	3,563,996,530	3,002,762,220
Cash and Bank Balances (Note 17)	392,946,180	406,119,471
	3,956,942,710	3,408,881,691
Investment in Debentures (Note 14)	4,088,300,000	5,638,300,000
Long term Bank Deposits	1,266,678,125	1,169,874,563
Investments in Treasury Bills/Bonds Repurchase (Note 17)	20,098,830	420,106,413
Short Term Bank Deposits	41,515,132,946	41,932,637,264
	46,890,209,901	49,160,918,239
Financial Liabilities		
Other Financial Liabilities		
Borrowings (Note 21)	64,724,683,990	47,172,796,305
Debentures (Note 22)	4,000,000,000	4,000,000,000
Trade and Other Payables (excluding non financial liabilities) (Note 25)	3,637,802,214	2,462,071,717
	72,362,486,204	53,634,868,022

(b) Credit Quality by Class of Financial Assets

The credit quality of Financial Assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

31 December 2021

	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total
Trade receivables (Note 16)	1,818,889,266	311,661,341	1,949,703,156	4,080,253,763
Loans to Company officers	127,761,820	-	-	127,761,820
Total financial assets	1,946,651,086	311,661,341	1,949,703,156	4,208,015,583

31 December 2020

	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total
Trade Receivables (Note 16)	324,097,611	1,350,063,137	2,548,817,147	4,222,977,895
Loans to Company Officers	160,165,850	-	-	160,165,850
Total Financial Assets	484,263,461	1,350,063,137	2,548,817,147	4,383,143,746

Cash at Bank and Short-Term Bank Deposits

	2021	2020
AA+(lka)	43,173,409,851	43,507,517,797
Total	43,173,409,851	43,507,517,797

28 Dividend

No dividends were declared for the year 2021 & 2020.

29 Contingencies

The Company is the defendant in the following lawsuits filed against the Company. In the Directors' opinion, after taking appropriate legal advice, the outcome of these legal action will not give rise to any significant loss.

Members of two Taxi Associations have filed 134 cases against the Company demanding approximately LKR 62 Million for breach of contract. As per the judgment of Civil High Court of Negambo (Case No -WP/H/CCA/NEG/31/2017 (F) and WP/H/CCA/NEG/35/2017 (F)). The registrar has made a determination on one court case for the compensation payable as Rs.276,116.52. This amount has to be applied in 80 cases as they belong to one Taxi Association. However determination calculated by AASL is Rs.196,796.52. We will be supporting our position in court on 3rd March 2022. If our determination is upheld the total payable for 80 cases shall be Rs.15,743,721.60. If the determination of the Registrar is upheld the total payable for 80 cases shall be Rs.22,089,321.60.

A provision of Rs.12,060,000 was recorded in 2020 and action has been taken to increase the provision up to Rs.22,089,321.60 as at 31.12.2021 by considering the above factors.

Other than the above, there were no material contingent liabilities outstanding at the Statement of Financial Position date.

Notes to the Financial Statements

(In the notes all amounts are shown in Sri Lankan Rupees unless otherwise stated)

30 Commitments

30.1 Capital Expenditure Commitments

	2021	2020
Contracted but not provided for	21,678,443,226	1,242,572,981
Authorized by the Board, but not contracted for	304,926,793	7,087,492,019
	21,983,370,019	8,330,065,000

30.2 Financial Commitments

There are no any other financial commitments other than those disclosed under Borrowings (Note 21 & 22).

31 Transactions with Key Management Personnel

	2021	2020
Emoluments and Fees	11,307,484	6,603,688
	11,307,484	6,603,688

The Board of Directors have been considered as Key Management Personnel of the Company.

32 Related Party Transactions

AASL as a fully owned Government Company, the following significant transactions have been carried out with entities controlled by the Government in the ordinary course of business.

Name of the Entity	Relationship	Nature of the Transaction	2021 LKR Million	2020 LKR Million
Civil Aviation Authority	Government Owned	Embarkation levy Income	968	1,476
Sri Lankan Airlines	- Do -	Franchise Fee Income	230	1,293
Ceylon Petroleum Corporation	- Do -	Fuel Purchases	1,291	1,141
General Treasury	- Do -	Loan Repayments	1,092	1,005
Department of Inland Revenue	- Do -	Taxes	117	214
Central Bank of Sri Lanka	- Do -	EPF	583	580
Ceylon electricity board	- Do -	Electricity Payments	785	553
General Treasury	- Do -	Interest Payments	168	173
Sri Lankan Catering Ltd	- Do -	Franchise Fee Income	80	163
Employees Trust Fund Board	- Do -	ETF	146	145
Sri Lankan Catering Ltd	- Do -	Catering Services	24	128
Ceylon Petroleum Corporation	- Do -	Franchise Fee Income	92	84
Urban Council	- Do -	Rates Payments	59	59
Sri Lanka Insurance Corporation Ltd	- Do -	Insurance payments	38	52
Bank of Ceylon	- Do -	Rental Income	11	33
Board of Investment	- Do -	Water Chargers	31	31
Sri Lanka Telecom Plc	- Do -	Telephone chargers	15	28
People's Bank	- Do -	Rental Income	5	10

Name of the Entity	Relationship	Nature of the Transaction	2021	2020
			LKR Million	LKR Million
Receivables				
Bank of Ceylon	Government Owned	Investments	42,317	43,403
Sri Lankan Airlines	- Do -	Franchise Fee Income	31	3,199
Rural Development Bank	- Do -	Investments-Long Term	950	950
National Saving Bank	- Do -	Investments	465	419
Civil Aviation Authority	- Do -	Embarkation levy Income	417	131
Divisional Secretary Katana	- Do -	Deposit For Land Acquisition	13	13
Sri Lanka Air force	- Do -	Rental Income	10	10
Sri Lankan Catering Ltd	- Do -	Franchise Fee Income	51	8
Ceylon Petroleum Corporation	- Do -	Concession income	16	8
People's Bank	- Do -	Investments	-	500
Payables				
Central Bank of Sri Lanka	- Do -	EPF	92	90
Ceylon Petroleum Corporation	- Do -	Fuel Deposit	54	54
Ceylon electricity board	- Do -	Electricity Deposit	47	47
Employees Trust Fund Board	- Do -	ETF	13	12
Sri Lankan Catering Ltd	- Do -	Purchases	58	6
Board of Investment	- Do -	Water Chargers	5	7
Sri Lanka Telecom Plc	- Do -	Telephone chargers	4	5

Limited disclosures have been made in accordance with LKAS 24 - "Related Party Disclosures" for transactions that are individually significant because of their size and due to the impracticability of capturing and disclosure of all transactions which have been carried out with all Government controlled / related entities.

Balances from / to entities controlled by the GOSL are included under Trade and Other Receivables / Payables and Interest-Bearing Liabilities in the Statement of Financial Position.

33 Events after the reporting period

There have been no material events occurring after the Statement of Financial Position date that require adjustments to or disclosure in the Financial Statements.

Connectivity and Dimensions

Airlines Operated to BIA in 2021

	IATA Code	Airline		IATA Code	Airline
1	SU	Aeroflot	24	QR	Qatar Airways
2	G9	Air Arabia	25	OV	Salam Air
3	AK	Air Asia	26	SV	Saudi Arabian Airlines
4	KC	Air Astana	27	SQ	Singapore Airlines
5	CA	Air China	28	SG	Spicejet Airlines
6	AF	Air France	29	UL	SriLankan Airlines
7	AI	Air India	30	FD	Thai AirAsia
8	UK	Air Vistara	31	TG	Thai Airways International
9	CX	Cathay Pacific	32	TK	Turkish Airlines
10	MU	China Eastern			
11	WK	Edelweiss Airlines			
12	EK	Emirates			
13	EY	Etihad Airways			
14	FZ	Fly Dubai			
15	GF	Gulf Air			
16	6E	IndiGo			
17	J9	Jazeera Airways			
18	KE	Korean Airlines			
19	KU	Kuwait Airways			
20	LO	LOT Polish Airlines			
21	MH	Malaysian Airlines			
22	Q2	Maldivian			
23	WY	Oman Air			

Airlines Operated to MRJA in 2021					
	IATA Code	Airline		IATA Code	Airline
1	KC	Air Astana			
2	G2	GullivAir			
3	6E	IndiGo			
4	Q2	Maldivian			
5	NO	Neos			
6	Z2	Philippines AirAsia			
7	QR	Qatar Airways			
8	DV	SCAT Airlines			
9	PQ	SkyUp			
10	SG	Spice Jet			
11	UL	SriLankan Airlines			
12	PS	Ukraine International Airlines			

International Airports

	Airport name	ICAO	IATA	General area served	Province	Runway length
1	Bandaranaike International Airport	VCBI	CMB	Colombo	Western	3,350 m (10,990 ft)
2	Jaffna International Airport	VCCJ	JAF	Jaffna	Northern	1,400 m (4,593 ft)
3	Mattala Rajapaksa International Airport	VCRI	HRI	Hambantota	Southern	3,500 m (11,500 ft)
4	Colombo International Airport, Ratmalana	VCCC	RML	Colombo	Western	1,773 m (5,816 ft)
5	Batticaloa International Airport	VCCB	BTC	Batticaloa	Eastern	1,400 m (4,593 ft)

Source: Aeronautical Information Publication (AIP)

Domestic Airports

	Airport name	ICAO	IATA	General area served	Province	Runway length
1	Ampara Airport	VCCG	ADP	Ampara	Eastern	1,097 m (3,599 ft)
2	Anuradhapura Airport	VCCA	ACJ	Anuradhapura	North Central	1,630 m (5,347 ft)

	Airport name	ICAO	IATA	General area served	Province	Runway length
3	China Bay Airport	VCCT	TRR	Trincomalee	Eastern	2,168 m (7,864 ft)
4	Hingurakgoda Airport	VCCH	HIM	Minneriya	North Central	2,287 m (7,503 ft)
5	Katukurunda Airport	VCCN	KTY	Kalutara	Western	1,006 m (3,199 ft)
6	Koggala Airport	VCCK	KCT	Galle	Southern	1,033 m (3,143 ft)
7	Sigiriya Airport	VCCS	GIU	Dambulla	Central	1,789 m (5,801 ft)
8	Vavuniya Airport	VCCV		Vavuniya	Nothern	1,526 m (5,000 ft)
9	Weerawila Airport	VCCW	WRZ	Hambantota	Southern	1,225 m (4,019 ft)

Source: Aeronautical Information Publication (AIP)

Waterdromes

	Waterdrome name	IATA	General area served	Province
1	Arugam Bay Lagoon Waterdrome	AYY	Arugam Bay	Eastern
2	Batticaloa Lagoon Waterdrome	BTC	Batticaloa	Eastern
3	Bentota River Airport	BJT	Bentota	Southern
4	Castlereigh Reservoir Waterdrome	NUF	Castlereigh	Central
5	Diyawanna oya Waterdrome	DWO	Sri Jayawardhanapura	Western
6	Dandugama Water Aerodrome	DGM	Colombo - Dandugama	Western
7	Kalpitiya Waterdrome	DBK	Kalpitiya	North Western
8	Kelani River-Peliyagoda Waterdrome	KEZ	Colombo - Peliyagoda	Western
9	Koggala Lagoon Waterdrome	KCT	Koggala	Southern
10	Lake Gregory Waterdrome	NUA	Nuwara Eliya	Central
11	Mawella Lagoon Airport	DIW	Dikwella	Southern
12	Polgolla Reservoir Waterdrome	KDZ	Kandy-Polgolla	Central
13	Tissa Tank Waterdrome	TTW	Tissamaharama	Southern
14	Victoria Dam Waterdrome	KDW	Kandy-Victoria	Central

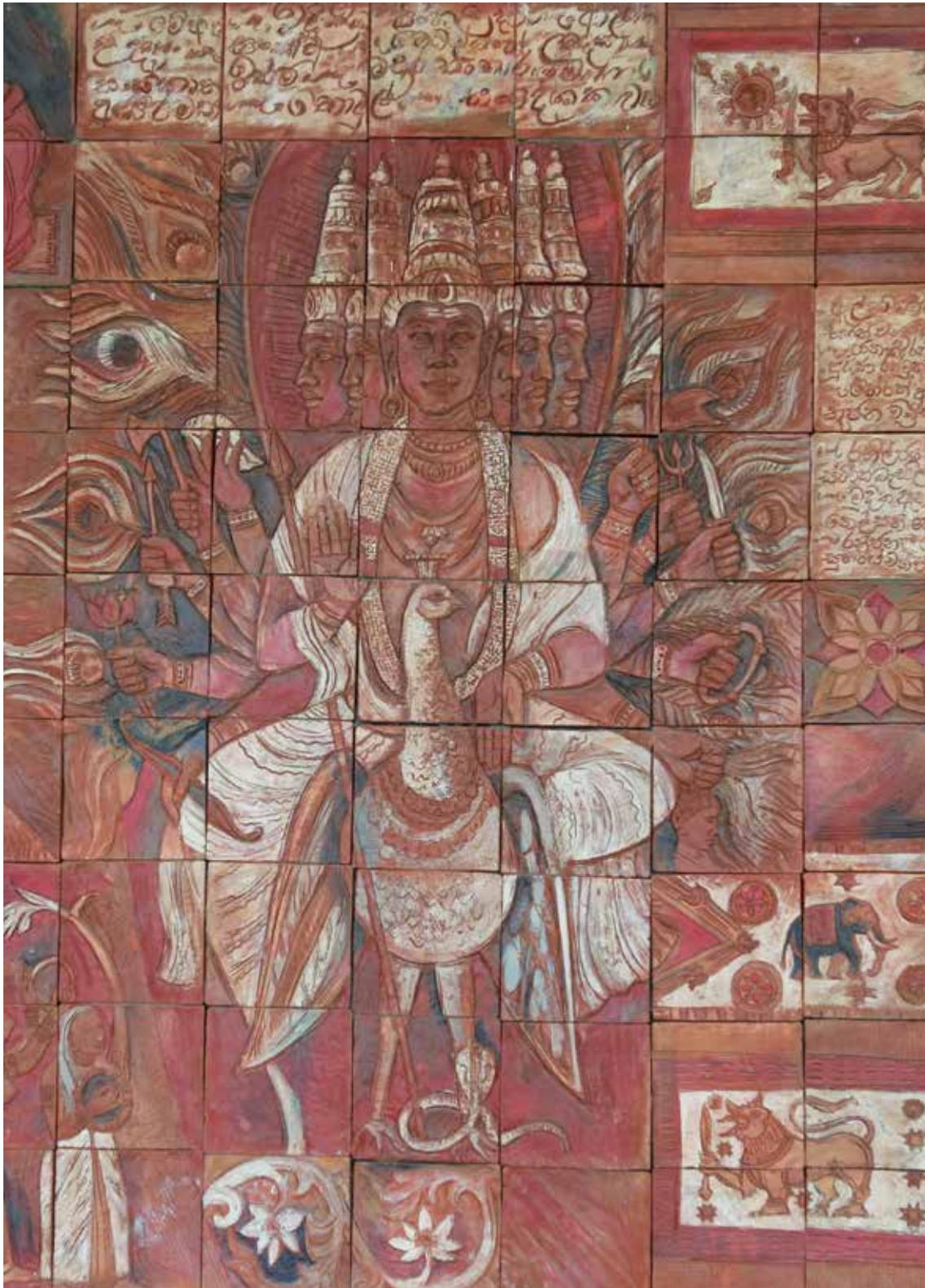
Source: Civil Aviation Authority

Helicopter Landing Sites

	Heliport name	AHLS Reference
Kandy		
1	Asgiriya Police Ground -Kandy	AHLS NR12
2	Bogambara Ground- Kandy	AHLS NR13
Colombo		
1	Kirulapana Grounds, Colombo 5.	AHLS No 01
2	“Janadhipathi Balika Vidyalaya Grounds, Nawala East”	AHLS No 02
3	Cyril Mathive Ground, Kelaniya	AHLS No 03
4	University Grounds, Kelaniya	AHLS No 04

	Heliport name	AHLS Reference
5	Shalika Grounds, Narahenpita	AHLS No 05
6	Open University Grounds, Nawala	AHLS No 06
7	“Devi Balika Vidyalaya Grounds, Colombo 8”	AHLS No 07
8	Cooray Park Grounds, Wellawatta	AHLS No 08
9	Golf Club, Colombo 8	AHLS No 09
10	Campbell Park Grounds, Colombo 8	AHLS No 10
11	Waters’ Edge, Battaramulla	AHLS No 11
12	MOD Helipad	AHLS NR 14

Source: Aeronautical Information Services (AIS/HQ)



Corporate Information

Company Registration Number

PV 7931

Date of Incorporation

23 February 1982

Date of Re-registration

07 October 2008

Legal Form

Private Limited Company

Key Shareholders

- Secretary to the Ministry of Treasury
- Ministry of Tourism & Aviation
- Director General of Civil Aviation

Regulator

- Civil Aviation Authority of Sri Lanka

Empowered by

- Civil Aviation Act No. 14 of 2010 (as amended)
- Companies Act No. 07 of 2007 (as amended)

Registered Office

- Bandaranaike International Airport, Katunayake

Other Locations of Operations

- Mattala Rajapaksa International Airport, Mattala
- Colombo International Airport, Ratmalana
- Jaffna International Airport, Jaffna
- Batticaloa International Airport, Batticaloa
- Sri Lanka Airport & Aviation Academy (SLAAA), Ratmalana
- HF Transmitting Station, Attidiya Road, Ratmalana
- Radar & Communication Centre, Pidurutalagala Peak, Nuwara- Eliya
- HF Receiving Station, Kandapola
- ADS-B Receiving Station, Kilinochchi
- ADS-B Receiving Station, Sooriyakanda
- Microwave Repeaters Station, Nayabedda

Auditors

National Audit Office of Sri Lanka

Company Secretary

V L Udugampola (Ms)

Information Officers

M C G Mahipala (Ms)
M Ratnasinghe (Ms)

Bankers

Bank of Ceylon



Airport & Aviation Services
(Sri Lanka) (Private) Limited